# HOUSING POLICY TARGETING HOMELESSNESS

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# Executive Summary

## Low federal spending on affordable housing and its consequences

The ongoing decline in federal spending on affordable housing must be reversed. Spending has dropped from $2.7 billion (2013 dollars) two decades ago to $2.2 billion – including Homeless Partnership Strategy (HPS) funding – in 2013. Because there has been a high level of immigration, and population is much greater than in 1993, the situation is worse than it appears at first sight. Spending per head has plunged by over one-third, from $98 in 1993 to $63 in 2013. It will come as a shock to most people that Canadian federal spending is well under half that in the US, adjusted for differences in the dollar and population.

Not surprisingly, these years of low spending have seen high levels of extreme affordability problems – close to 60 percent of renters in 2011 with an income at about the minimum-wage level paid more than half their income in rent, in Halifax, Toronto and Vancouver, and an even highly percentage did so in Calgary and Edmonton. Social housing waiting lists have ballooned and the number of homeless persons on our streets has risen. Declining federal spending has also burdened provinces and municipalities. These levels of government have borne almost all the cost of providing shelters for the homeless, as well as programs providing targeted housing support for tens of thousands.

We believe that housing is such an important contributor to the well-being of Canadians that all housing, whether for homeowners or renters should be subsidized through the tax system or otherwise. But a balance is called for, and the current situation is one in which affordable rental housing, largely social housing, receives far less than owner-occupied housing, although subsidies for homeowners come in the less noticeable form of tax expenditures.

## Problems in the private rental housing market

The great majority of low-income households are renters. They live in multi-unit rental buildings, condominium buildings or low-rise housing. In the last few decades in large cities with rising house prices, new rental supply has come largely in the form of investor-owned condominiums or apartments in converted houses. The nature of this supply is a problem for many low-income households, and for programs helping the homeless and precariously housed.

The difficulties inherent in this rental stock are three. First, it provides no security of tenure because investors may sell their units to owner occupiers who have the right to dispossess sitting tenants. Second, there is usually no onsite manager able to arrange for the repair of plumbing and appliances within the unit. Third, because a

## BUILDING NEW HOUSING IS KEY TO SOLVING HOMELESSNESS

single investor rarely owns many units in the same building, this housing is unsuitable for Rent Supplement (RS) contracts, under which a landlord commits to the provision of a block of units while a housing agency pays part of the rent directly to the landlord. A further problem is that investors tend to target their units to those who demand designer features but little space, so this housing is unsuitable for people with children.

The virtual cessation of purpose- built multi-unit rental buildings in some cities arises because investors have been willing to pay more for units that may be sold individually in either the investor or owner-occupier market than for units that can be sold easily only as a block and in the investor market. This shift has been greatly exacerbated by the tax reform of the late 1980s that pushed investors in the direction of chasing capital gains, and away from long-term investment.

For all these reasons, the proposals in this report include some that will undo and amend the 1980s tax reform, in order to rectify the mistakes that have contributed to current problems.

## The housing needs of the homeless, Housing First, and the costs of homelessness

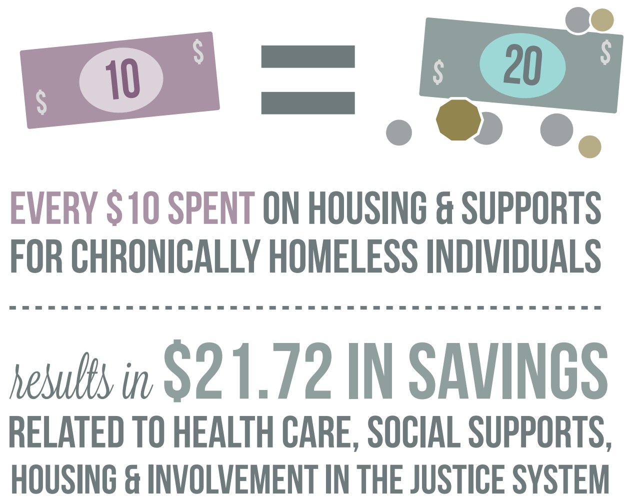
About 150,000 people in Canada in 2013 were at some time in the year forced to take refuge in an emergency shelter. The great majority of the homeless are single and male but in recent years there has been a disturbingly large increase in the number of homeless children. On top of those using shelters, are others, in hospitals and prisons without a home to go to on release, women and children in Violence Against Women (VAW) shelters, and the hidden homeless – those living on sufferance in accommodation provided by someone they know, perhaps in shelter as primitive as a backyard shed. These, together with those sleeping rough, amount to some 186,000 to 220,000 (Gaetz et al. 2013).

Most of the homeless manage to get into permanent housing after only a short period of distress. They are the tip of the iceberg of the precariously housed, those who face an extreme affordability or other housing problem and are at high risk of homelessness. Adequate housing solutions for them include cash help and access to social housing.

The chronic and episodically homeless, who have been without a home for years, are a different matter. Most of them have major challenges, including mental illness, alcoholism and other substance abuse issues. They are best aided through the application of Housing First principles, where housing is provided without conditions – for example, sobriety is not required of an alcoholic. Applying these principles is the only way to ensure that homelessness Is eliminated. Of course, these homeless also need support – such as assistance to reduce the harm of an addiction, or to end it. The housing programs proposed here would ensure only that they are housed, but with that accomplished, governments and non-profits could provide effective supportive services.

The rate of homelessness among Aboriginals is of special concern. Chronic homelessness is high and they are particularly likely to sleep rough. Aboriginal homelessness in cities is in large part indicative of problems in on-reserve housing. It is beyond the scope of this report to deal with this issue but it is clear that it must be the focus of a major initiative. It is important that Aboriginals themselves lead this initiative, and have a greater presence in shelters and in the provision of support services in off-reserve facilities.

Ending homelessness would not only eliminate much human misery; it would also reduce government and private costs. Governments now fund homeless shelters which are more costly per bed than permanent housing. Costs do not stop there. The homeless make disproportionate use of hospitals' costly emergency rooms, the consequence of the unhealthy conditions of their daily life. Homelessness is costly to the corrections system. Some take up police and court time merely for activities like drinking where the offence exists simply because it is done in public rather than at home – homelessness creates the offence! The At Home/Chez Soi final report (Mental Health Commission of Canada, 2014) found that spending $10 on Housing First for the chronic homeless saved $21.72 in health care and other costs.




Less quantifiable costs of homelessness are those borne by ordinary residents of a city who are unable to use parks in the way they were intended because some homeless people need a place to sleep. Retailers and tourist attractions bear costs if shoppers and tourists are deterred by the presence of the homeless. Shelters often have a policy of providing only night-time shelter and perhaps one or two meals, forcing the use of parks and libraries, not for their designated purpose, but simply for living space. Housing the homeless would not only end needless human misery but would also improve the quality of life for others in the city.

## The demand side: the numbers who need housing help and priorities

The individuals and families who need housing programs may be divided into two groups: a small number of chronic and episodically homeless and a number many times as great who are either transitionally homeless – homeless sometime in the year but quickly finding permanent housing – or precariously housed. Our first priority must be the former. They are more deprived than most other homeless, and, despite their small numbers, they use more than half of shelter resources. While the expenditure required per person is high, savings would be great. We estimate their number at 28,000, but estimation is difficult and their numbers could be under 20,000 or over 30,000.

The second group is far larger. We estimate that households that are transitionally homeless for a week or more amount to 110,000. The precariously housed, those who are in core housing need mainly because of an affordability problem, number many hundreds of thousands.

To fill the need we propose the set of programs given below.

## The supply side: proposals to meet housing need

In short, we propose:

- **A Rent Supplement (RS) program** – deep subsidies for the chronic and episodically homeless.
- **A bundle of tax changes aimed at reviving the virtually moribund construction of multi-unit rental buildings** in some of our cities including Toronto, Vancouver and Calgary, and at preserving the existing multi-unit stock. These tax measures are aimed at ensuring greater availability of housing for RS and at providing relative security of tenure.
- **Tax proposals aimed at increasing the stock of affordable multi-unit rental buildings.**
- **A housing benefit aimed at assisting the precariously housed** who have no wish to move but have an affordability problem.
- **Funding to insure the continuing viability of existing social housing** and the continuation of programs launched in recent years.

## The proposals

1. **A modified RS program, funding 20,000 households – almost all singles – who were previously chronically homeless.** A government or non-profit agency would contract with a landlord for accommodation of a formerly chronically homeless household. The tenant would pay rent equal to 30 percent of income, except that those receiving social assistance would pay its maximum shelter allowance or a deemed shelter component. The RS paid to the landlord would be the difference between the market rent and the tenant's payment. Federal funding of this program would leave room for provinces to fund support services for the formerly homeless.

2. **A suite of tax incentives for existing and new multi-unit (residential) rental buildings in eligible markets.** Such markets would be ones where over the previous 20 years the multi-unit rental stock per capita had decreased by more than 25 percent. Incentives would be available only to buildings where there is a 25-year commitment to keeping all units rental and to unified rental management. The incentives are

   a. Increase the Capital Cost Allowance (CCA) of existing buildings to 6 percent from 4 percent. This would increase the value of these buildings to buyers intending to keep them in multi-unit rental use.

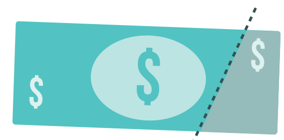
   b. Triple the CCA deduction to 12 percent for the first five years of new construction or major capital expenditure, for new construction starting within five years, and for capital expenditure indefinitely.

   c. Eliminate the half-year rule, so that CCA could be deducted at the rate of 6 percent in the year of purchase of an existing building – 12 percent for new buildings.

d. Eliminate the rule that a rental loss cannot be created or increased by the deduction of CCA (subject to the provision that interest on debt of only 85 percent or less of the value of the property would be deductible as an expense). This provision is necessary in order for a, b, and c to be effective stimulus for new investors.

3. **A tax incentive for existing buildings to become affordable housing:** defer the tax due on sale of a multi-unit rental building until the death of the vendor, or for 40 years where the vendor is a corporation, so long as the buyer commits to operating the property as an affordable one for 25 years. With this provision in effect, properties would sell to non-profits at a discount.

4. **An Affordable Housing Tax Credit (AHTC), set at 100 percent of the construction cost per affordable unit, to subsidize multi-unit buildings.** This would subsidize low- income renters via the tax system, reducing the current tax expenditure imbalance favouring homeowners. A limit would be set on the amount of the tax credits and they would be allocated, via a competitive process, by provinces. One half would be reserved for non-profits. The Canada Revenue Agency (CRA) would ensure that the affordability commitment was met.



The way the credits would work is through the sale of shares in the developments, both non-profit and for-profit, to individual investors and profit-making corporations who in return would receive a proportionate share of the credits. They would use the credits to reduce their taxes. Investors also would receive a share in the loss created by the CCA deduction which could reduce their taxable income. The sale of the shares would provide equity funding for the non-profit or for-profit developer so that only small mortgages would be needed. In most cases syndicators would be used to sell the shares. These syndicators, in the US, have provided valuable advice and other services to developers.

In the US the low income housing tax credit has funded a wide range of housing, including almost all affordable housing built in the US in the last few decades. For example it helped fund Anishinabe Wakiagun in Minneapolis, a non-profit building providing supportive housing for 45 chronically homeless alcoholic men.

The US operations of Canadian banks have invested substantially in US housing credits – for example TD invested US$296 million in 2011 in credits. At least one bank is involved as a syndicator – RBC Capital Markets , has raised over $5 billion through various US housing tax credit programs.

5. **Funding to support the continuing viability of existing social housing projects when the agreements under which they now operate expire.**

When CMHC devolved administrative responsibility for social housing to the provinces, federal funding was kept at 1994-95 levels until the expiry of the agreements. At expiry, mortgages will be paid off and operating subsidies will also end, putting many projects in financial difficulty. Most projects in trouble at expiry will have a high proportion of RGI units, with rents too low even to cover operating expenses, let alone major repair and renovation. We propose that $850 million, half the current federal expenditure for this housing be allocated to ensuring its continuing viability.

6. **Renewal of funding and indexation to inflation of the Affordable Housing Initiative (AHI), Residential Rehabilitation Assistance program (RRAP) and the HPS.**

7. **Assistance to local municipalities to set up Affordable Housing Trusts.** This is a low cost initiative. Housing Trusts, by centralizing the municipal housing subsidy system, would make it easier for municipalities to deal with land it leases to housing providers, taxes designated for affordable housing, and density bonuses.

8. **A Housing Benefit (HB) for low-income renters and homeowners with an affordability problem.** The HB is a monthly cash payment based on the housing costs and income. The maximum housing costs considered in the calculation of the benefit would depend on the median rent in the place where the recipient lives. The benefit would be administered by CRA just as it administers child tax benefits and GST/HST tax credits. Like these, the HB would depend on the previous year's income and would be deposited directly into the recipient's bank account each month. The disincentive to work associated with the benefit's effect on marginal effective tax rates would be slight because there would be a substantial stretch of income above welfare income over which the benefit would not be reduced, and the reduction in the benefit would typically lag many months behind an increase in income.

## The HB and the RS compared

The RS is a much deeper subsidy than the HB: the estimated monthly averages are just $130 for the housing benefit and more than four times as great, $569 for the rent supplement. The HB is designed to improve the housing affordability of those already housed while the RS is designed to move people into housing. Drilling down to technical points: in the RS the whole gap between the rent of the recipient's unit and a reasonable rent is paid, not just 75 percent as in the HB; there is a maximum rent constraint in the HB program but not in the RS. In addition, RS recipients on average have a greater affordability gap because their income is lower, boosting the subsidy needed. Finally the supply of units available for the RS is restricted and higher rents are the consequence.

## The numbers of units needed

As indicated above, the number of homeless households needing help totals an estimated 138,000. The number of households who are not homeless but are precariously housed is far larger, as indicated by CMHC's core housing need estimates: nearly a million renter households and about half that number of owner households, based on the 2006 Census.

## Matching up supply and need

All homeless and precariously housed will be eligible for the HB. Some will use it while they wait to move into new housing created by the AHTC, AHI and HPS. Over two–thirds of the estimated 28,000 chronically (and episodically) homeless will be assisted with deep subsidies via the new RS program. Of those remaining, we estimate 1,000 will be housed via turnover in existing social housing, and over ten years, 2,000 in new housing under the AHTC and 5,000 under the AHI and HPS.

Of the 110,000 transitionally homeless, we estimate 7,000 will be housed through existing social housing turnover and by ten years on, 30,000 will live in housing built under the AHTC and 18,000 under the AHI, while the remaining 55,000 will live in market housing with assistance from the HB. The vast majority of the precariously housed will receive only the HB because their problem is one only of affordability. Others in this group will need social housing and we estimate that 32,500 will benefit from social housing turnover, and by ten years on, from new affordable housing, 16,000 of it from the AHTC and 6,000 from the AHI.

## The bill

How much will all this cost? For 2016 cost is estimated at somewhat over $3.4 billion – in 2013 dollars per capita, slightly less than federal housing expenditure in 1993. The largest single item is the expenditure required to fulfill the commitments CMHC entered into decades ago; next largest is the estimated expenditure for the housing benefit. The pattern changes over the following decade as CMHC commitments fall. The HB becomes the largest single item, at close to a third of the total, although spending on the HB remains less than the total expenditure on support to social housing currently in existence and to the AHI, RRAP and HPS.

The tax expenditure estimated if the proposals for tax are enacted, starts low but climbs as the AHTC ramps up to its maximum of $750 million and tax relief for multi-unit rental rises to reach its full effect. Total tax expenditure is estimated to be somewhat over a billion by 2020. All of this expenditure results in increased capital spending and adds to rental housing infrastructure.

## Concluding remarks

For over two decades real federal subsidies for low-income housing have declined. Coming at a time of lower real incomes at the bottom of the income distribution, this has caused deprivation for hundreds of thousands of Canadians. One results in the increased number of homeless people. A less visible manifestation is a remarkably high rate of severe housing affordability problem in some cities. The proposals in this report would go a long way to ending homelessness and reducing housing cost- related poverty. Their implementation would bring per capita federal spending on housing subsidies for low-income Canadians up to less than $100 per year, a shade less in real terms than it was two decades ago. We strongly believe they should be implemented.

# Introduction

In the last two decades federal government housing programs have all but atrophied. Yet the need of low income people for affordable housing has risen dramatically, partly as a result of government inactivity in affordable housing. Most important of all, the extreme manifestation of the failure to house our people – homelessness – has risen. The sight of a homeless person on our streets, especially in the central areas of major cities was a rare event a few decades ago. Now, sadly, it is common.

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In this report we propose a number of programs to reverse course and return housing programs to their rightful place in federal government policy and expenditure. Not only would this be the right thing to do for the homeless people who live in such miserable circumstances, it also would be cost effective. The average monthly cost of a shelter bed has been estimated at nearly $2,000, far more than the rent of the average apartment (WI, 2007). This is not the end of the expense – for example, the costly resources of hospitals in downtown areas are heavily burdened by the needs of the homeless who usually have no family doctor. The often poor state of their physical and mental health is exacerbated by every additional day they remain homeless. All told, the annual cost in Canada of homelessness is estimated at $7 billion (Gaetz et al.2013).

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We set the stage for our proposals by pointing out some details of the federal government's cuts in spending on housing, in real terms, over the last two decades and compare current spending with housing expenditure in the US. Then we show some of the consequences of this, by giving the numbers for homelessness, and for those who are precariously housed because they spend a far greater than affordable amount on their housing.

This reports concentrates on increasing the role of the federal government in producing affordable rental housing to help house the homeless. This will not be sufficient to solve the problem; provincial and local governments need to be partners in this endeavour and continue funding at least at their current level. Increased federal funding does not mean the province can reduce its commitment to funding housing and homelessness programs. Provinces could add to the affordable housing low income tax credit for example; Manitoba already has a tax credit which could be combined with the new federal one proposed.

Social housing is aging and will continue to require capital expenditures to keep the housing maintained and energy efficient. The provinces will need to help fund these repairs to ensure the affordable housing stock is kept well preserved.

As well, many homeless are dealing with complex issues and need substantial support to succeed in maintaining their housing; many of these supports are funded through provincial programs (e.g. mental health) and each province needs to ensure there are sufficient supports to ensure success for those housed. Local governments have a role to play as well. They can facilitate the construction of affordable housing through easing zoning regulations to allow for affordable rental units to be built and forgiving fees such as development charges. There is a need for local concrete plans to reduce homelessness as well if the funding programs are going to be effective to achieve this goal.

As a result of the recommended changes to the tax laws, tax revenue in most provinces will be reduced somewhat, as well as federal revenue, that is, tax expenditure will be shared with the provinces.

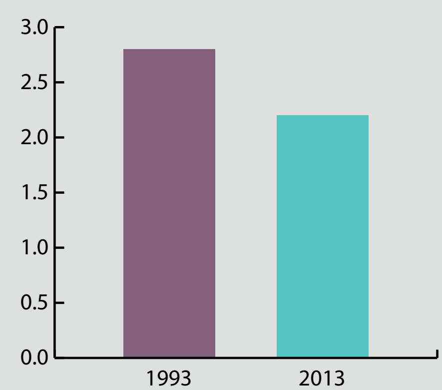
It is important to realize that many of the benefits of reduced homelessness accrue at the provincial level. Reductions in demand on the justice system and reduced health care costs through housing the homeless will reduce provincial costs in these areas.

## The shrinking federal government spending on housing

For decades the federal government played an active role in expanding the amount of social housing, using its fiscal might to provide subsidies. In the 1970s, path-breaking mixed income programs – subsidizing non-profit and co-operative housing – were launched. These were highly active into the 1980s, not only providing housing for many thousands of families and singles but also reviving obsolete railway and industrial lands in downtown areas. Concern about the budget deficit in the deep recession of the early 1990s led to the shut-down of these programs in 1993. Since that time federal subsidies for housing have come in only short-lived spurts and their contribution has been minimal.

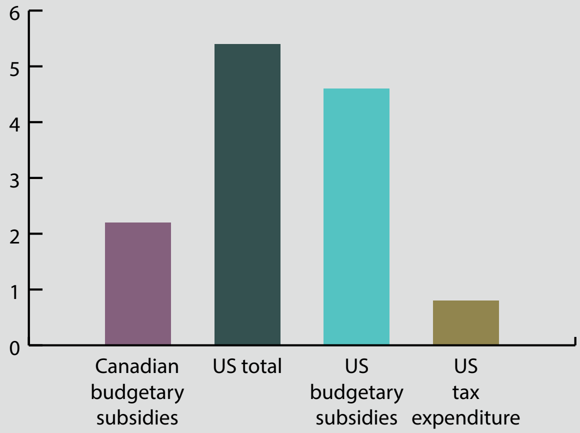
Fleshing this out with numbers, in the 1993-94 fiscal year, the total Canada Mortgage and Housing Corporation (CMHC) housing subsidy was $1,945 million,[1] equivalent to $2,798 million in 2013 dollars.[2] Even the extraordinary housing spending in 2009-10, initiated as part of the stimulus to reduce the impact of the financial crisis and the recession, increased expenditures by just 17 percent above the amount that a decade and a half earlier had been normal. In current dollars the total was $3028 million in 2009-10[3] ($3,265 in 2013 dollars) and just slightly less in the following year. These two years are the only interruption in a downward trend over the two decades. For 2013-14, the estimates for CMHC's social housing spending and support are $2054 million,[4] 37 percent less in real terms than two decades earlier; this is illustrated in Figure 1. Spending by the federal department, Employment and Social Development Canada (ESDC) (formerly Human Resources and Skills Development Canada) on homelessness initiatives has to a very small extent taken up the slack, with expenditure estimates for 2013-14 at $150 million[5] -- but that is far below the expenditure when these homelessness initiatives began in 1999. This still gives a total housing spending of only $2,204 billion, far below the 1993 amount – and the ESDC funds have not been intended for *permanent* housing. The extent of this decline is especially remarkable given Canada's high level of immigration and rise in population of approximately 23%. In per capita terms, the metric that really counts, spending has dropped by over one-third.

FIGURE 1 **Federal government subsidies for affordable housing, 1993 and 2013**
*(billions of 2013 dollars)*




Sources: see text, above, and associated endnotes.

FIGURE 2 **Canadian federal expenditures versus adjusted US federal government expenditure on affordable housing** *(billions of Canadian dollars with US expenditure adjusted to a Canadian population basis)*




Sources: see text, above, and associated endnotes.

Housing is such an important contributor to the well-being of Canadians that most housing, whether for homeowners or renters, should be subsidized. But a balance is called for, and the current situation is unfair. Affordable rental housing receives far less in subsidies than homeownership, although awareness of subsidies for homeowners is muted because they come in the form of tax expenditures (see Appendix A). It is partly because of the nature of these subsidies that one of the proposals in this report is a tax expenditure for *rental* housing for low and moderate income Canadians.

Canada's performance in subsidizing housing for low income households is poor relative to that of the US. Canada is used to viewing itself as a kinder, gentler, nation but that does not apply to affordable housing. As Figure 2 illustrates, US federal expenditure is about two and a half times that of Canada, adjusted to put US numbers on a Canadian basis.[6] US budgetary expenditure alone is more than twice Canada's. US homelessness grants (adjusted for comparability with Canadian numbers) are far greater than grants through Canada's Homelessness Partnering Strategy (HPS) – and the latter includes many non-housing subsidies. The Housing Choice Voucher – often referred to as "Section 8" – a program that, like Canada's Rent Supplements (RS) offers the kind of deep assistance that the homeless need, amounts to over US$19 billion. Adjusted to a Canadian population and dollar basis, this is $2.3 billion, more than *total* Canadian federal budgetary spending on affordable housing and homelessness programs.

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# The number and nature of the homeless in Canada

## Users of emergency shelters

For years, the estimated number of homeless was based on crude and inconsistent data. Recently, however, the federal government's Homelessness Partnering Secretariat published *The National Shelter Study: Emergency Shelter Use in Canada, 2005-2009* (Segaert, 2012). The study used a stratified random sample to estimate the number of different people who stayed in an emergency shelter at least once in a year. The number in 2005 was 156,000 and fluctuated around the 150,000 level over the following four years, ending in 2009 at 146,700. Over all five years the average length of stay fluctuated around 13 days, ending in 2009 at the high end, 16.0 days (Segaert, 2012).

The increase in stay is largely accounted for by the disturbing increase in the average length of stay of those using family shelters and those for women with children; the average for the former rose from 33 days to 50 days, and for the latter, from 11 days to 17 days. Although the number of children under 16 using shelters was small, it rose greatly over these years, accounting for over 9,000 users in 2009, *despite the exclusion from the* *survey of shelters for women suffering violence*. Some clients of these shelters would have accompanying children. The extreme instability of living in a shelter bodes ill for the life chances of these children: there is strong evidence that moving has a severe negative effect on success in school (Hoddinott et al., 2003) and the incidence of homelessness as a teenager is one of the indicators of chronic homelessness. It is a sign of the depth of housing problems that children are now shelters clients in such numbers.

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It is important to recognize that the homeless population is diverse and their lack of housing creates different challenges for different groups. Youth who leave an untenable home situation can encounter exploitation and abuse in their attempts to find shelter off the street. Women sleeping rough face extreme danger and often attempt to make themselves invisible to avoid this. The working poor forced to resort to shelter use are trying to maintain employment while searching for new housing. And families are trying to keep their children insulated from the effects of shelter life while getting them to school and maintaining as normal a life as possible. Women leaving an abusive relationship face significant challenges in transitioning to a new life, particularly if they have children. Each of these groups has significant challenges and there is no one answer to help all get and stay housed.

Over two thirds of the surveyed shelter users stayed in a shelter only once in the year. For them emergency shelter use seems to have been truly an emergency, rather than a manifestation of continuing need.

More than 70 per cent of shelter users 16 and over were male – although this gender imbalance would drop if violence-against-women (VAW) shelters were included in the count. The great majority of shelter users were aged 16 to 54, with the distribution close to uniform over that age range. Only a small number were over age 54. Once this age range is reached, senior housing is available, and those over 65 who have been living in Canada for long enough are lifted above the extreme poverty level by the universal old age pension, and the Guaranteed Income Supplement (GIS).

A chart in Gaetz et al. (2013, Table 5) shows that Aboriginals make up over 20 percent of the homeless population; in western Canadian cities the proportion is much higher, reaching over half in several places. Homelessness is a truly an immense problem among Aboriginals. The high numbers in cities close to many reservations is testimony to the difficult life on reserves; for many, especially those who grew up in the child welfare system (Thurston et al., 2013) even an uncertain and poverty-stricken future in a city is preferable to the virtually certain poverty and dismal housing conditions on their reserve. It is difficult to avoid the impression that this homelessness is a manifestation of failure in the reserve system and, in general, in the education and support of Aboriginals, whether on a reserve or in a city. To some extent it may be a legacy of the residential schools problems because these are believed to have been a large underlying factor in the family dysfunction that ultimately has led many Aboriginal children to enter the child welfare system (Feir, 2013).

*While it is outside the scope of this report, we are so struck by the scale of Aboriginal homelessness that we must state our view that there there is an urgent need for investment in on-reserve housing.*

While it is outside the scope of this report, we are so struck by the scale of Aboriginal homelessness that we must state our view that there there is an urgent need for investment in on-reserve housing. There also needs to be targeted investment in off reserve housing, including supportive housing; it is imperative that in both cases, Aboriginals be leaders and otherwise involved in delivery of the housing. More generally, there needs to be a commitment by the Government of Canada, working with Aboriginal peoples (including Inuit and Metis) to develop and cost out a national strategy to address Aboriginal housing problems.

## The street homeless, the homeless in VAW shelters and others

Homeless people include, in addition to those counted above, the street homeless as well as those staying in VAW shelters, transitional housing and temporary institutional accommodation (for example those in a hospital or prison and without a home to return to after release). No rigorously derived estimates for the number of people who *ever in the year* are rough sleepers exist. However point in time (Pit) estimates – done between 2007 and 2012 in Fall, Winter or Spring – in eight cities including Toronto and Vancouver find that rough sleepers amount to about 22 percent of shelter stayers at a point in time (Gaetz et al., 2013).[7] Rough sleepers tend to be longer term homeless: this means that the number of individuals who are ever-within-a-year rough sleepers is not many times the number of rough sleepers found at a point in time. For this reason and because many of them will already be counted in Segaert's shelter numbers – because they sometimes stay in a shelter – we simply increase the Pit count in Gaetz et al. (2013) by two-thirds, to 5,000 as those who slept rough at anytime during the year.

Women and children in VAW shelters also must be estimated. Gaetz et al. (2013, p. 23) give the number of women admitted to VAW shelters in 2009 as 64,500 but 31 percent had been admitted to the same shelter in the past. We assume 40 percent of those admitted had been to the same or *another* shelter in the past year, and we assume that 30 percent return to their partner.[8] This implies that 30 percent of the admissions count of VAW shelters is the number of women needing a housing unit – about 18,000.[9] The number of children accompanying the women admitted was 39,200 (Sinha, 2013); assuming the number of children per woman needing a housing unit is the same as the number of children per woman admitted, we find that 11,800 children needed housing.[10] Thus the total homeless in VAW shelters is estimated at 29,800, rounded to 30,000.

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Totalling these three numbers we get 185,000 different people either in emergency shelters, sleeping rough or homeless in VAW shelters, each year (150,000 in emergency shelters, 5000 sleeping rough and 30000 in VAW shelters). They may be termed the core homeless.

There are two additional categories to consider. As cited in Gaetz et al. (2013, p. 22) the number of those in temporary institutional accommodation without a permanent home on any given night is 31 percent of the number staying in an emergency shelters. When they are released a large number of them will use an emergency shelter and will be counted among the 150,000 who use a shelter at least once in the year. Finally there are the hidden homeless, those who are staying temporarily with others without permanent housing to move to. They might be staying in an unheated shed of an acquaintance or other entirely inadequate shelter. These have been estimated at "as many as 50,000 on any given night" by Gaetz et al. (2013, p.6), but it is very difficult to determine the true number and some authors put the number much higher.

Emergency shelters are usually provided only for the night-time hours so that users not in the workforce are forced during the day to depend on drop-in centres or to live on the street, in cafes or in public areas like libraries. They and those sleeping rough are the homeless that ordinary people are likely to see. It is intolerable that there are over 150,000 in these categories, while a few decades ago they were rare. But these people are only a small part of the total number living with a difficult housing situation.

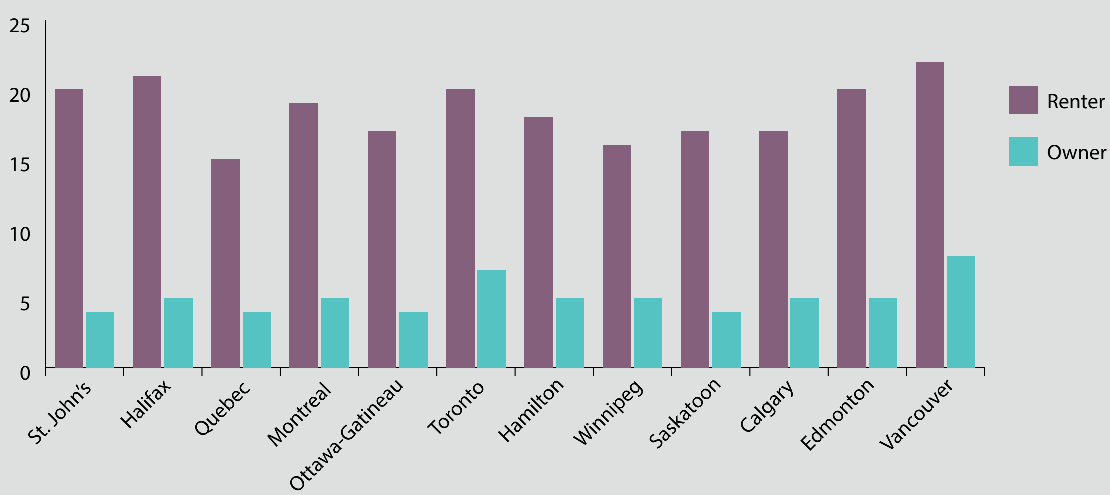
## The precariously housed

Individuals and families may be precariously housed for many reasons. Their housing may be in very bad repair, although housing standards and complaints to bylaw officers reduce this likelihood in some cities. They also may have little security of tenure because of landlords' rights to terminate tenancies if they want the housing for their own use. The overwhelmingly most important reason for precarious housing is low income and high housing costs—mainly rent but also costs for heat and other utilities. People in this situation just scrape by, each month deciding which bills to pay and how to feed themselves and their families as well as keep a roof over their heads. They are at risk of paying rent late or not at all and having to resort to food banks to put bread on the table. The risk is increased if a couple splits up or there is job loss.

We focus here on the affordability reason for precariousness; specifically we focus on those with an extreme affordability problem, defined as those with a very low income paying more than half their income for rent and other housing costs. This is far above the standard threshold of 30% of income. To gauge the seriousness of the problem, we discuss some numbers we have estimated from the 2011 National Housing Survey. As a rough indicator of very low income we take incomes below $30,000, although we acknowledge that an income of $30,000 means a much greater depth of poverty for a family with five mouths to feed than for a single person.[11]

For Canada, we estimate that 18 per cent of renters have this extreme affordability problem of spending more than 50% of their income on housing – see note in Figure 3 for basis of estimation. Among cities, the rate is highest in Vancouver at 22 per cent, Halifax at 21 per cent, Toronto, Edmonton and St. John's at 20 per cent, and Montreal at 19 per cent.[12]

FIGURE 3 **Extreme affordability problems by CMA**

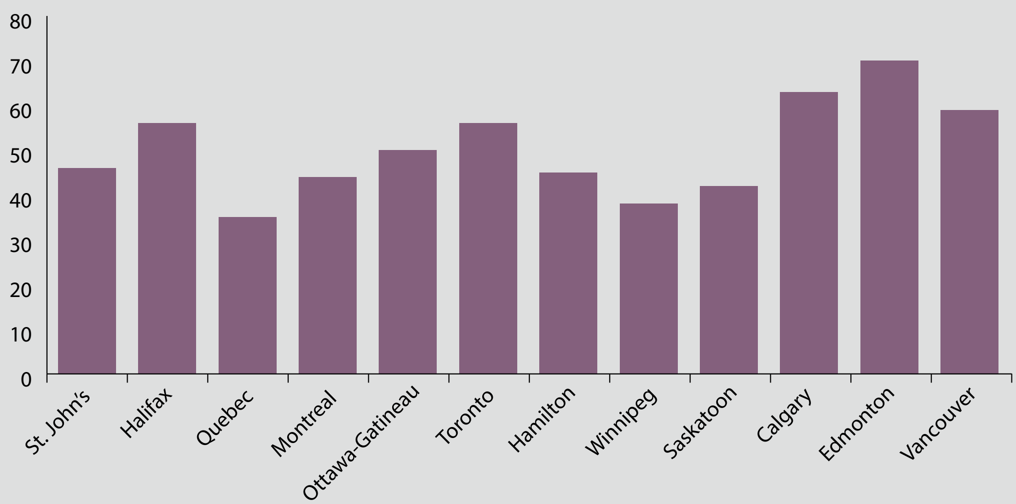



Bars show percentage of households who have income less than $30,000 and pay more than 50% of income on rent or owner housing costs . Computation uses National Household Survey, 2011 data.

Affordability problems are much less prevalent for owners, but again, Vancouver is highest, at 8 per cent; Toronto, another city where house prices are high, is second, at 7%. Every other CMA is well below 6%. It seems likely that some of these owners have suffered some income shock such as job loss after qualifying for a mortgage. Others might be singles, some of whom lived comfortably in their housing earlier, only to land up in difficulty when they and their spouse separated or they were widowed. The data do not allow us to say how many homeowners in this situation have enough equity in their home to ride out their bad fortune, but to the extent this is true, hardship is reduced and their housing may not be precarious.

Additional insight is gained by examining those in the single income class, $10,000 to $20,000. This income range includes working singles and couples as well as singles over 65,[13] and single parents, some receiving social assistance. While the earlier measure depends partly on the prevalence of low income in a CMA, this one answers the question, if a family *does* have approximately a minimum-wage income, in which CMAs is it most likely to do badly in the housing market? The answer, for renters, is the three most western cities. An astonishing 70 per cent of renters in this income class in Edmonton (see Figure 4) pay more than 50 percent of their income in housing costs (including essential housing expenses such as rent and heating costs); other high ratios are 63 per cent in Calgary, 59 per cent in Vancouver, and 56 per cent in Toronto and Halifax. High heating costs likely pay a role in Edmonton. Overall, these ratios suggest that many in this income group must be dependent on food banks or soup kitchens, and are just a single financial shock – like the loss of income because of a lay-off or an injury – away from homelessness (O'Flaherty, 1996).

FIGURE 4 **Extreme affordability problems among renters with income $10,000 to $30,000 by CMA**




Bars show percentage of renting households having income between $10,000 and $30,000 who pay more than 50% of income on housing costs; computation uses data from the National Household Survey, 2011.

In most cities around half of *owners* in this income group have housing costs over 50 percent of income. Toronto has by far the most, 69 percent. Generally, because renting is the dominant tenure in this income class, the absolute number of owners in these dire straits is far, far less than the number of renters. In Calgary and Toronto, however, the number of owners in this income group with an extreme affordability problem is over 60 percent of the number of renters in the same boat.

# Setting Priorities in Housing the Homeless

## Housing First

The housing programs analyzed in this report and targeted at the homeless would produce and subsidize housing that is consistent with the principles of "Housing First." The fundamental belief encapsulated by this term is that improving the lives of the homeless requires first of all that they be housed. This in turn means that there must be no housing readiness requirements before a housing unit is provided. Housing with low barriers has to be available– there must not be requirements such a good credit rating, no substance abuse and no criminal record, that might keep out the most needy. There must be choice and self determination, support services tailored to the individual and social and community integration (Gaetz et al., 2013; Goering et al., 2014).

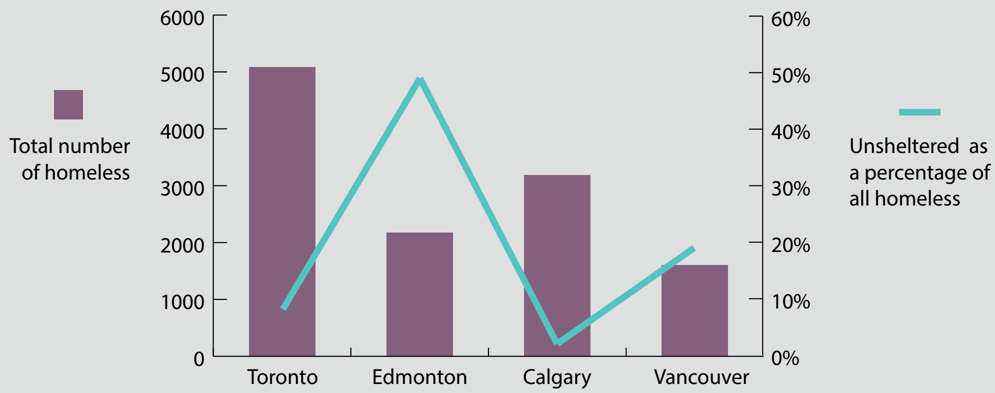
In concrete terms this means, for example, that an alcoholic homeless person must be housed without requiring abstinence, supports need to be put in place to help the person give up alcohol or to consume it in its least damaging form, and to help the person maintain his or her housing and build a stable life. Put another way, ending homelessness means housing everyone who is sleeping rough or is otherwise homeless, rather than merely looking after those with only housing problems and no concurrent issues.

## The chronically and episodically homeless

If the target is an end to homelessness, the Housing First approach is an inescapable necessity. This is seen by considering the most severely affected, the "chronic homeless, " who have lived on the street for many years or who are long-term shelter users and in most cases are afflicted with mental illness, addictions or physical disability. They make up only an estimated 2 to 4 percent of the Canadian emergency shelter population (Aubry et al., 2013), an estimated 4,000 to 8,000 people (Gaetz et al., 2013). They stay in shelters frequently and for long periods on each occasion. The "episodic homeless, " are only slightly better off than the first group. Unlike the latter they do not stay in shelters for long periods, but have frequent spells there. When they are not in shelters, they may be on the street, with friends or relatives, or in hospitals or prisons. They are on average younger than the chronic homeless. See Gaetz et al. (2013), who estimate their numbers at 6,000 to 22,000, for more information about this category and the chronic one.

*If the target is an end to homelessness, the Housing First approach is an inescapable necessity.*

FIGURE 5 **Number of homeless and percentage that are unsheltered, selected cities**




Source: Point-in-time counts within the range of years, 2009 to 2012, from Gaetz et al. (2013, Table 4)

Although the chronic and episodically homeless account for only a tiny percentage of all homeless people, they used over half the shelter bed-nights in a recent study (Aubry et al., 2013). They account for half of the enormous costs of the shelter system. Many have serious mental health and/or addiction problems and they will remain homeless if, for example, the only housing offered requires abstinence or more generally, if entry to social housing requires them to be compliant, deserving poor. It follows that the *only* way to move them all from the shelter system or street homelessness into permanent housing is to adopt the Housing First approach.

Many cities in Canada have already made the choice to nudge homeless people off the street and into emergency shelters. This is humane because it protects them from the elements, although some homeless feel safer on the street. As Figure 5 shows, cities vary greatly in the estimated percentage of the homeless that is unsheltered. It is much higher in Edmonton than in the other cities, despite its harsh climate (its count was taken in March). Few are unsheltered in Toronto, in part through volunteer efforts, by churches and others under the Out of the Cold program, that have added capacity beyond the municipal shelter system, especially in the winter. Finally, some of the differences are undoubtedly the statistical artifacts of the different methods used for the counts – in particular, Calgary and Toronto actually observe rough sleepers while Edmonton and Vancouver survey those found in soup kitchens and other haunts of the homeless during the day and ask them where they slept the previous night; each method has its strengths and weaknesses.

*Although the chronic and episodically homeless account for only a tiny percentage of all homeless people, they used over half the shelter bed-nights in a recent study (Aubry et al., 2013). They account for half of the enormous costs of the shelter system.*

The second largest CMA in Canada, Montreal, is not shown in Figure 5 because no homeless count has been done since the mid-1990s (Gaetz et al., 2013), but recently it has been estimated that there are 2,143 shelter beds in the whole province of Quebec (Segaert, 2012), with an occupancy rate of over 80 percent (Gouvernement du Québec, 2014, p. 23). Many beds would be in Montreal, putting the shelter bed provision in Montreal in the same range as for cities shown, except for Toronto, which has far more. For the whole province, the total number of homeless has been estimated at more than 30,000 (Gouvernement du Québec, 2014, p. 22) in 2005. Although the basis of this estimate is not given, it is likely upward biased relative to a Pit count.

Sheltering the homeless contributes to the desirability of the city by liberating sidewalks, doorways and parks from their role as camping spots, returning them to other residents and to tourists for walking, sightseeing and shopping. Shelters should only be a temporary expedient, however. They are no substitute for a proper home. The lives of the homeless are only slightly less miserable than when they are on the street, and indeed some prefer the street or a park to a shelter except in extremely cold weather. They have no privacy and quiet and often have no place to keep their possessions safe. As both homelessness policy and housing policy, shelters are fundamentally unsatisfactory as anything other than a temporary solution. They are also very expensive.

*Sheltering the homeless contributes to the desirability of the city by liberating sidewalks, doorways and parks from their role as camping spots, returning them to other residents and to tourists for walking, sightseeing and shopping.*

From the point of view of urban policy, shelters are also problematic. Those who are working but staying in shelters have difficulty sleeping and preparing for work in the morning. Other shelter clients often have no place of their own during the day and are driven to use public spaces or drop-in centres, whether they wish to or not. Without a permanent address they have little chance of finding a job and in some jurisdictions may find it impossible to obtain social assistance. They may have to walk long distances to soup kitchens and may end up on the streets panhandling. As a result, the city is a less desirable place for residents and visitors.

Municipalities and provinces bear the enormous annual operating cost of the shelter system. The conundrum is that providing permanent housing that would run at much lower operating cost requires capital funding largely beyond the ability of municipalities and provinces (plus territories) to finance. Federal funding is also required. The federal government 's participation is crucial in view of the weak budgetary position of provincial governments projected for the next decade, at the same time as federal government finances are robust (Beckman et al., 2014).

## Why the chronic and episodically homeless are the two highest priority groups

The discussion in the previous section makes it evident that the group with the first claim to permanent housing is the chronic homeless. Not only are they high need – because they are homeless continuously – but they also are extremely costly to the public purse. To illuminate this point consider the fact that more than half the infractions, such as consuming alcohol, committed by the homeless in Montreal in the ten-year period ending in 2004 (Campbell and Eid, 2009,p,37) were infractions *only because they took place in public*. The time of police and the courts to deal with them would not be needed if those charged had had the option to drink at home; as it stands, public spaces are the only places available. The recent At Home/Chez Soi final report (Mental Health Commission of Canada (2014) found that spending \$10 on Housing First for the chronic homeless saved \$21.72 in their health care and other costs.

The episodically homeless are the next priority. Some will become chronically homeless if they are not moved into permanent housing. Their frequent stays in shelters are so disruptive that normal life is impossible, and the lack of support to assist them in tackling mental health and employment-related issues is a major problem. As a group, they are heavy users of hospital emergency rooms as well as shelters and, like many of the chronically homeless, are costly to the court and corrections systems.

The total number of chronic and episodically homeless estimated by Gaetz et al. (2013, p.29) is only 10,000 to 30,000 nationally, based on shelter users. The number of rough sleepers any time in the year is estimated earlier in this report at 5,000 and we simply assume that 3,000 of these are chronically or episodically homeless. Then the total chronically or episodically homeless is estimated at 13,000 to 33,000. So long as the provision of housing does not encourage more people to migrate to this class, the capital funding required to house these homeless – even if numbers are considerably greater than estimated by Gaetz et al. (2013) – is not impossibly large, especially if spread over five to ten years; this will be discussed in a later section.

## The transitionally homeless

The transitionally homeless are lower priority than the first two groups but they are still important, not least because without attention some may, after a time, become chronically homeless. Helping them may be urgent. For example, Cheryl Forchuk (Forchuk et al. 2011) has found that those experiencing their first incidence of mental illness were much more likely to attend follow-up treatment if found a place to live and put on Ontario Works (social assistance) while in hospital, than if they were dropped off at a homeless shelter with an appointment card. Some may need supportive housing, especially if they have been recently discharged from psychiatric institutions, VAW shelters, detoxification programs or the corrections system (as suggested in Aubry et al., 2013). Many are likely to need assistance obtaining a job. For many, a lack of a history of homelessness indicates little need for supported housing. Loans, such as offered by first and last months' rent programs in some Ontario cities, may be their major need and most, given a leg up largely in the form of cash assistance, are capable of being housed in the private market.

Some in this group are not very different from the precariously housed – those who are housed but spending so much of their income on rent that they are in danger of losing their housing. The great majority are singles, the group most impoverished by paltry support from the social assistance system.

*The majority are singles, the group most impoverished by paltry support from the social assistance system.*

## Trade-offs

Although it is undeniable that the two groups identified here as top priority are indeed that, the problem of chronic homelessness will not be solved over the longer term unless the temporarily or transitionally homeless are also helped. Unless this happens, they are in danger of moving into the long-term homelessness.

Difficult decisions may need to be made. The principle of helping the top priority groups first might have to be violated for good economic reasons. For example, it might make sense to support some recently released psychiatric patients – who by definition are merely transitionally homeless – in the same facility as mentally ill chronically homeless. This violates the principle of helping those in the top priority group first, because funds will be spent for the benefit of the lowest priority group before all of the highest priority groups have been taken care of. Economies of scale may make this a practical necessity, however. For example, in October, 2012 in Lethbridge, Alberta, there were 99 homeless (Gaetz et al., 2013, Table 4). It seems possible that five of these were chronically homeless alcoholics. Now suppose there were 10 alcoholics among those who had recently become homeless – and so counted as transitional. If the cost per bed of supportive housing for 15 alcoholics were much lower than the cost per bed for 5, the larger facility might be purchased despite the priorities given here.

The situation just described segues into another quite general point, that the right location – in the above case, Lethbridge – may be crucial for success. An offer of housing on the outskirts of Calgary might seem, to a homeless person whose haunts have been downtown, to be an offer that involves moving to an insuperably foreign environment, far from meal programs and other social services. Permanent housing nearby holds more promise.

## Incentives

Economists cannot discuss priorities without discussing incentives and fairness. An uncomfortable issue is that providing good quality supportive housing for some of the homeless might induce people who are paying high rent for cramped, dilapidated or badly located housing, or living rent- free in miserable conditions, in desperation to go to an emergency shelter in order to receive subsidized and better housing, especially if the shelter itself provides shared space of at least minimal quality.[14] Or those living on a poverty-stricken reserve, near to a city with good housing for the homeless, might migrate to the city. There they could live rough – especially in the summertime – or use emergency shelters, in the hope of qualifying for good subsidized housing.

Neither those people who leave poor quality or expensive housing nor the migrant would actually qualify for subsidized housing intended for the chronically homeless, because of a lack of a history of homelessness. But some who are housed, albeit unsatisfactorily, might be induced to move in the mistaken belief this would get them into subsidized housing. They would become homeless by mistake. Publicizing the criteria for getting the subsidized housing would minimize the likelihood of this.

A related point is that a great challenge in offering appropriate responses to differing categories of homeless – for example, youth homeless or alcoholic homeless –is the difficulty of precisely targeting the intervention. Different aspects are required: coordination among agencies offering housing – so as to avoid overlaps and, at the same time, gaps – specific eligibility criteria for clients, and approved referring agencies.

Some of those who are temporarily homeless, despite information about criteria, might observe the offers of housing the chronically homeless are receiving and work out how to game the system. If many people do this, the cost of housing the homeless will be greater than if only the targets are helped.

The likelihood of incenting people to enter the shelter system is low, however, because of the policy advocated in this report of (a) focusing help on the chronically and episodically homeless as a top priority, (b) implementing a Housing First policy, and, as proposed below, (c) providing those who are precariously housed with a cash housing benefit to help them keep their current accommodation and (d) increasing the total stock of rental housing, especially *affordable* rental housing, for-profit as well as non-profit.

At the same time, it is also important to have in place supports for those leaving the corrections, child welfare, VAW shelters and health systems to ensure they get into housing rather than become homeless. Doing this may require targeted assistance from municipal and provincial social agencies linked to the three systems and this would also be supported by the proposals given below.

The implementation of c) and d) parts of this policy means that the creation of supported housing would do little to attract into homelessness households that merely have an affordability problem. This is underlined by the dramatic difference in characteristics between social housing occupants, typically families, especially ones headed by single mothers, and the homeless, who are typically single males (Early, 2004; Segeart,2013). Currently, even without c) and d) in place, mothers usually find housing without going through a period of homelessness, in part because the child benefit system provides them with a much higher minimum income than jobless single males. This makes it more likely they can find market housing. Furthermore, there is more social housing available for families.

Still, an impediment to eradicating visible homelessness is the flow into emergency shelters of the hidden homeless – such as someone living rent-free in an acquaintance's unheated shed – when shelters are emptied of the chronic homeless or when new shelters are opened.[15] Even when singles know that moving to a shelter will not increase their chances of getting into subsidized housing they may do so if shelters become more palatable when there is a fall in occupancy of the mentally ill and addicted, after many of these have been moved into Housing First facilities. This highlights the importance of programs to prevent households from becoming homeless in the first place.

*An impediment to eradicating visible homelessness is the flow into emergency shelters of the hidden homeless – such as someone living rent-free in an acquaintance's unheated shed – when shelters are emptied of the chronic homeless or when new shelters are opened.*

## Fairness

Economists are also greatly concerned with horizontal equity – treating people in like circumstances equally – and vertical equity – conferring greater benefit on those who are worse off than those who are better off. We may call this simply "fairness." On this criterion the priorities and policies set out here do well. The chronically homeless, especially if they are mentally ill, suffer from addiction or have physical or mental disabilities, are among the worst off in society. The policy of creating additional social housing units dedicated to their supportive housing underlines the fairness of helping this group first. Adding to the social housing stock or to the number of Rent Supplements specifically to help the chronically homeless pointedly conveys the fact that *programs to help the homeless do not disadvantage the usual clients of social housing*. This is important for both fairness and the perception of fairness.

*Adding to the social housing stock or to the number of Rent Supplements specifically to help the chronically homeless pointedly conveys the fact that programs to help the homeless do not disadvantage the usual clients of social housing.*

The importance of adding affordable rental units is made starkly evident by considering the effects of the contrasting policy currently in place in Ontario. There, the legislature has given a disadvantaged group, victims of domestic abuse, the highest priority for admission to existing social housing. Women who flee to VAW shelters often move from them directly into permanent housing. The consequence is that in Ontario, the waiting time for a Rent Geared to Income (RGI) unit is on average less than a year for these victims but over three years for the majority of RGI applicants – those in the first come-first served, category (ONPHA, 2013). While victims of domestic violence make up 3% of those on the waiting list, they account for 26% of those housed (ONPHA, 2013). In some municipalities the bumping by VAW applicants is so severe that very few units are available to the long list of other applicants. Notably, in Peel in 2009, 83 percent of the family-sized public units went to families fleeing abuse (Winsa, 2010); and in 2012 there were 845 domestic abuse cases on the waiting list but the *total* housed was only 870 (ONPHA, 2013).

This demonstrates the need for additional RGI units to shorten the wait time for those who do not fall into this high need category.

# The number of newly created housing units needed to house the current homeless

## Determining the number of homeless households

How much accommodation is needed to end homelessness? Answering this demanding question requires an estimate of the number of current homeless households, by type, currently in Canada. We note that the following subsections assume that there is no behavioural response to the provision of additional housing (that is, no incented flow into homelessness); we deal with that possibility in a separate subsection.

We confine ourselves in principle to those who are homeless for seven days or more in a year. Becoming homeless is the most severe consequence of a housing problem, but those who are homeless for only a few days demonstrate that they are quickly able to get back into housing and put the bad experience behind them.

Recent surveys of the homeless (excluding those in VAW shelters) allow us to give an empirically-based estimate of the percentage of homeless who are in that state under seven days. Using the Toronto survey (City of Toronto, 2013) we estimate that under four percent of the homeless in the Pit count experience less than seven days of homelessness.[16] Results from Vancouver (Eberle, 2013) support the Toronto evidence that this group is small. However, they would be a much higher percentage of the total number of people who *in a year* are ever homeless. To use the terms of Quigley and Raphael (2010), high turnover implies that the year-prevalence is much greater than the Pit prevalence.

To estimate the number of people who are homeless for seven days or less, we start with the estimate in Gaetz et al. (2013) that the number of people homeless in emergency shelters or sleeping rough on any given day is 17,400; we increase this slightly and round up to 18,000. If every week the percentage of these who are homeless for seven days or less is four percent, the number of these very short term homeless at any point of time is 720. However, on average the people in this group turn over once a week; thus for a year we estimate the number as 52 times 720 or 37,000. This is about 25 percent of the Segaert (2013) estimate, given earlier, of the number who use a shelter at some time in a year. Data for Alberta show a much higher percentage in this very short term category – 62 percent (Calgary Homeless Foundation, 2013) – but the Alberta situation is unusual because of the large number of jobseekers flocking to Calgary and Edmonton without housing arranged in advance. Many shelter users are those immigrating directly to Calgary from countries like Mexico and needing temporary accommodation merely until they get settled.

## **The number of chronic and episodically homeless** *households*

The worst-affected group is the chronic homeless. Housing them is our top priority. We lump in with them the episodically homeless, because in both cases we are dealing with people who spend time in a shelter several times a year. The episodically homeless merely stay for a shorter time on each occasion. The shorter stays of the episodically homeless may reflect in part a greater ability to cope with sleeping rough – members of this group are typically younger than the chronic homeless. It might also reflect greater disability and a lesser ability to cope with a group – the street homeless, who usually spend at least one night in a shelter each year, have been found to be more unkempt and confused (Segaert, 2013). The two groups together, including rough sleepers, as noted earlier, are estimated at between 13,000 and 33,000. The range for this estimate is wide because of the difficulty of estimation. Where we need to use a single number, we use one towards the higher end of this range to lessen the chances of an underestimate; specifically, we use the number 28,000.

Some further discussion of rough sleepers, those sleeping outdoors, is called for. To the extent that they sleep on the street rather than in difficult-to-access ravines or other out-of-the-way places, these are the homeless who are most visible, and the greatest evidence to outsiders of social ills in the community. They tend to be swept up in campaigns to ready a city for events such as the Olympics, and businesses are apt to be especially ready to contribute to their housing.[17]

In a Toronto survey, there were 447 in this group, or 10 percent of indoor homeless; surveys in some other cities find a similar ratio, although the ratio is much higher in Edmonton.[18] Aboriginals were particularly likely to sleep outdoors: one-third of outdoor sleepers in Toronto identified as Aboriginal, more than twice the percentage among shelter homeless; 16 percent of all homeless surveyed were Aboriginal, over ten times their representation in the population (Toronto, 2013). They are also greatly over-represented among rough sleepers in Calgary, Edmonton and Vancouver. They may also disproportionately end up outdoors because they encounter discrimination within the shelter system and find it difficult to deal with the non-Aboriginals (Thuston et al., 2013), who are typically the administrators of shelters.

Some of the rough sleepers might on some nights, especially in severe weather, be found in a shelter: 40 to 42% of those in the male and mixed shelters in Toronto reported to its Pit survey that they had slept outdoors at least once in the past six months (City of Toronto, 2013, p. 14); however, a smaller proportion of those homeless ever in a year would likely report this.[19] Only about 12 percent of rough sleepers did not want permanent housing (City of Toronto, 2013, p. 29), while this was true of just 7 percent of those in City-administered shelters. It is clear that only a small proportion of homeless would turn their backs on permanent housing and in particular, few of the rough sleepers would be difficult to nudge off the streets. In terms of the urban environment, it is particularly important to succeed in this to reduce panhandling – in Toronto this is the number one source of income for rough sleepers, while it is not among the top five sources for any other homeless group (City of Toronto, 2013, p. 27); in Vancouver panhandling is also far more important as a source of income for rough sleepers than for the sheltered homeless (Eberle, 2013, p.21). The Toronto report notes that the incidence of panhandling has greatly declined since 2006.

Of the few who did not want housing, 21 percent were transients in Toronto on their way to another city (Toronto, 2013). The reasons for not wanting housing given by the remainder, taken in conjunction with the findings of Thurston et al. (2013) suggest that some may not want to leave the people whom they know on the street, their street family. Moving all of them into housing is apt to be easier if they know that their group will stay together. Being able to deal with administrators of the same ethnic group may also help; this seems clear in the case of Aboriginals (Thurston et al., 2013). Aboriginal administrators may also encourage those who do not receive social assistance to apply for it, reducing panhandling.

These homeless, in our proposals, would be housed in newly created housing units, including market units with deep rent supplements. So we need to determine, from the number of *people* in this group the number of *households* there are. A household is simply defined, by Statistics Canada and here as the people occupying a dwelling unit, so that by definition the number of households equals the number of dwelling units or housing units. The number of households is equivalent to the number of housing units required.

Segaert's report makes it quite clear that families are virtually non-existent among the chronic homeless. This gives us a good basis to assume everyone in this high priority group is single so that the number of housing units required equals the number of homeless.

## The number of lower priority homeless households

We now turn to the lower priority homeless. These are the transitionally homeless, estimated as 176,000 to 188,000 by Gaetz et al. (2013, p. 29). The middle of this range is 182,000. (We note that the great majority of this number are those counted in emergency shelters at least once in the year (but not chronically or episodically homeless) plus those in VAW shelters; only a fraction of the hidden homeless are included.) Deducting from this our estimate of the number of very short-term emergency shelter users (37,000) gives 145,000. This is a count of individuals rather than households. While it is true that most homeless are singles, there are some couples and families – that is one or two adults and at least one child – so that the number of transitionally homeless *households* must be less than 145,000.

We estimate that the number of households that these 145,000 individuals represent is 110,000 (see Appendix B for details of the estimation). Thus we take 110,000 as the number of housing units needed to provide the transitionally homeless who are homeless more than a week, with permanent housing. We emphasize that the calculations have been done using many assumptions and accordingly estimates are rough.

## The hidden homeless and precariously housed

We must provide for the hidden homeless and the precariously housed, as well as the homeless, in order to ensure that there is a not a continuing substantial flow into shelters and sleeping rough. The estimate of hidden homeless in Gaetz et al. (2013) is 50,000 but the number of individuals and families precariously housed because of an extreme affordability problem is far higher than this. These households – living on the edge, in most cases in high-rent cities – need financial protection to help them hold onto their housing. We propose below to provide that protection by implementing a monthly cash housing benefit. Because hundreds of thousands are at risk, this benefit will be designed to help a large number of households, each with only a shallow subsidy.

*These households – living on the edge, in most cases in high-rent cities – need financial protection to help them hold onto their housing.*

## Will providing housing for the homeless increase the flow into homelessness? The issue of behavioural response

In discussing estimates of the number of housing units needed for the homeless, we assumed that the homeless number was as currently measured, and implicitly, that the need for shelter beds would decrease as the current homeless are moved into permanent housing. We discussed the possibility of behavioural response in a preliminary way in the subsection on incentives. We now consider this further. Will more people enter shelters, drawn by the possibility of qualifying for affordable housing? Culhane's (1992) reports are not encouraging: when Philadelphia provided permanent housing in 1990, new admissions to shelters increased and it was not possible to reduce shelter beds. He also reports that New York City experienced a similar phenomenon.

We respond to this concern in two ways. First we are proposing that, initially, only the chronically and episodically homeless be offered the housing specifically aimed at the homeless. It is impossible to migrate to this classification within a short time because only people who the record system shows to have been homeless for a long time will qualify. Second, we are proposing that housing affordability be improved for precariously housed as well as for the transitionally homeless, through new affordable housing and through a housing benefit. Improvement in their affordability will not only reduce the chances that a missed pay cheque will precipitate them involuntarily into homelessness, but will also reduce potential advantages they might perceive of becoming homeless.

Some in the past have used a payment system for shelter accommodation to discourage the use of emergency shelters. Philadelphia at one time levied a charge of 15 percent of income on clients (Culhane, 1992), making shelter space a form of RGI housing. This charge, however, would encourage rough sleeping – and that is associated with anti-social behaviour such as panhandling and relatively high costs to the corrections and hospital systems. In Toronto, 61 percent of rough sleepers reported contact with the police, nearly twice the rate of the homeless in city-administered shelters (Toronto, 2013, Table 16); the percentage of rough sleepers reporting contact with jail was also relatively high. Furthermore, a charge for shelter space would usually be merely a transfer from one government agency to another, since the dominant income source for the homeless is social assistance (Toronto, 2013; Eberle, 2013).

Perhaps the most telling response to concern about behavioural response is evidence that homelessness is strongly affected by other factors: housing affordability and vacancy rates, or more generally, the state of the rental housing market. Quigley and Raphael (2001) estimate that a one percentage point increase in a US metropolitan area's vacancy rate combined with a reduction of its median rent-to-income ratio from 17.5 to 16.5 percent would decrease homelessness rates by a quarter. Consistent with this finding, Kneebone et al. (2011) find that the swings in homeless rates in Calgary are strongly associated with the state of the rental housing market.

Kneebone et al. (2011) also found the state of the labour market and the migration of jobseekers important. For example, when Calgary experienced a large inflow of jobseekers in 2008 as employment rose, shelter use increased markedly, while when employment fell in late 2009, shelter use declined. A special difficulty for immigrants needing a home immediately, and hunting in Calgary, is that most rental units are single-detached houses, semis, and accessory suites, a rental stock that is much less easy to search than units in apartment buildings with a rental agent on the premises.

There is also direct evidence from Alberta about behavioural response to housing programs. Nearly 8,000 clients have been housed through the Calgary Homeless Foundation's Housing First initiative (CHF, 2013) over the last few years, removing them from the ranks of the homeless. At the same time, the number of unique persons given shelter by the Calgary Drop-in and Rehab Centre, almost 14,000 in 2009, had dropped to slightly over 10,000 in 2012 (CHF, 2013 or 2014) despite an influx into Alberta of jobseekers. This shows that, at least in the short run in one Canadian city, housing the chronically homeless does not open the floodgates to more homeless.

## Providing sufficient housing for the homeless and precariously housed

## Units available from the existing social housing stock

The existing stock of social housing is about 600,000 units. We assume that 450,000 are RGI units and that non-RGI units with low rents (for example some well-managed co-op and non-profit units built in the 1970s) amount to 50,000. The total of these two numbers is 500,000. Turnover of these units is very low, a fact associated with their very low rents. Still there is *some* turnover. Assume that turnover is nine percent, slightly less than actual turnover in Ontario; this gives 40,500 units. Assume about 20 percent of the units are reserved for the homeless including women moving from VAW shelters;[20] this would provide 8,000 per year. We allocate 1,000 of these units (about 5 percent of all those becoming available) to the chronically and episodically homeless and the remaining 7,000 to other homeless. The remaining 32,500 turnover units would be available for families and individuals on the waiting list.[21]

## Additional affordable housing needed for transitionally homeless households

The use of 7,000 units from the existing social housing stock reduces the number of transitionally homeless households needing housing to 103,000. Many will be able to resolve their homelessness, possibly with help from social agencies, without the need for social housing and some may actively prefer to live in private housing without assistance. For example, migrants to Calgary, whether from Newfoundland or Mexico, may arrive with very restricted funds and no social connections. Without the resources to stay in a hotel, some may use a homeless shelter or sleep rough but move after they find a job and a home; this example is consistent with the analysis of Kneebone et al. (2011) of Calgary. In Toronto, like Calgary a city with many newcomers, 21 percent of those surveyed in City shelters were very recent migrants (had lived outside Toronto the year previous) while 30 percent in family shelters had arrived from another *country* within the previous year (City of Toronto, 2013).

In Vancouver (Eberle, 2013, Table 17), 26 percent of respondents reported less than three months of homelessness and the Toronto number is in the same ballpark. These data are from Pit counts. It follows that it is plausible that over half the individuals who at any time in a year stay in a shelter are homeless for three months or less.[22] These data on migrants and short-term homeless give some support to our assumption that half the original 110,000 homeless not housed in social housing – 55,000 – will find housing in the private market and will be able to remain housed with the help of the Housing Benefit proposed below. We are left with a need for 48,000 (55,000 minus the 7,000 provided by existing social housing turnover) affordable housing units (either social housing or other affordable housing) for the transitionally homeless.

## The total amount of newly created affordable housing (including deep rent supplements) needed to house the homeless

The number of affordable housing units needed is 27,000 for the chronic or episodically homeless (28,000 minus the 1,000 units from social housing turnover), mostly as a foundation for putting into effect Housing First plus 48,000 units to house the transitionally homeless, for a total of 75,000. These are provided over ten years by our proposals (see Table 2, close to the end of this paper.)

The transitionally homeless are a fluid group and most of them have a home except for a short time in any year, but when housed they become part of the precariously housed. Typically they will be spending so much on rent that they are living on the edge, in constant danger of losing their home. The majority of them are living on government transfers – social assistance (welfare), pensions, or Employment Insurance benefits. However, 16 percent of all sheltered homeless in Vancouver's Pit count report some employment income (Vancouver, 2013) and the Toronto results are similar. In most cases, employment in Toronto is part time (Toronto, 2013). Because transitionally homeless are underrepresented in Pit counts, the employment rate would be higher in year-prevalence counts like that of Segaert (2013).

For the majority of the precariously housed – including those who at some time in the year are homeless – a Housing Benefit (a monthly cash payment depending on their rent up to a maximum, and their income) would suffice to lift their rent burden enough to prevent homelessness – and we propose one below. Single people, male and female, including older single parents whose children no longer live at home, have to survive at a poorhouse-level if they are on social assistance – they get only about $600 per month in almost all provinces (Gaetz et al., 2013). Families are far better provided for: a single parent with two children under six receives far more social assistance and in addition gets over $800 per month in federal transfers, plus a top-up in most provinces. With three children under six the amount would be over $1,000 per month. We anticipate that while many families with children would qualify for a housing benefit, the grossly inadequate social safety net for singles makes it likely that they would be the dominant group of recipients.

*We anticipate that while many families with children would qualify for a housing benefit, the grossly inadequate social safety net for singles makes it likely that they would be the dominant group of recipients.*

Some of the transitionally homeless and precariously housed, however, will need the physical security and security of tenure afforded by social housing or by affordable multiunit rental housing. According to our estimates (again, Table 2 below), 54,500 will be housed in this way. The number assisted by the Housing Benefit in private housing will be many times this number.

In order to accommodate the homeless, it will be necessary to build additional rental units. In the next sections of this report we propose a broad range of programs[23] to maintain the current stock of housing, to increase rental supply, particularly affordable rental supply, and to increase the affordability of existing rental housing for low income people. We begin with tax expenditures. The first several of these are conventional – merely changes liberalizing current legislation. Then we set out our version of a very different animal, a Canadian version of the US Low Income Housing Tax Credit. Next we discuss explicit subsidized housing programs; these are mainly amended or strengthened variants of current programs. We conclude with our proposal for a Housing Benefit. The HB will be used by those housed in market rent housing, as will be the Rent Supplements proposed below – these programs depend on the existence of a sufficient supply of rental housing, a requirement that our proposed tax expenditures and other proposals address.

We present below two options for sets of recommendations for the federal government, in cooperation with the provinces and local government, to increase the supply of rental housing, house the chronically and episodically homeless and improve affordability for the precariously housed.

Our preferred option is *Option A* – just discussed – which involves liberalizing tax legislation governing multiunit rental housing, introducing an affordable housing low income tax credit and extending, reviving, and amending explicit grant-funded social housing programs. In terms of our proposals, Option A consists of proposals 1-11 below.

In our consultations regarding this paper there was some concern about the proposals for tax reform for real estate. *Option B* involves introducing an affordable housing low income tax credit and extending, reviving, and amending explicit grant-funded social housing programs but does not recommend a more general changing of tax legislation for multifamily rental properties. In terms of our proposals, Option A consists of proposals 6-11 below.

In order to accomplish many of the anticipated benefits of Option A, funds for various measures in Option B will need to be increased. The AHI would require additional funding to produce more new rental units than is anticipated under current funding levels. Since fewer new units are produced with Option B, rents are likely to be under more pressure in some markets and this will require larger rent supplements to allow tenants to pay 30% of income on rent than in Option A.

# Tax changes to increase multiunit rental supply

## Amend the income tax act to encourage more multiunit rental housing

The current tax law for multiunit rental housing is tough. From the late 1970s and throughout the 1980s, the tax screws on rental real estate were tightened. This culminated in the major tax reform of 1988 – at just the wrong time, as it later turned out. The construction of privately-built rental apartments, after holding up at over 20,000 starts per annum through 1991 plunged to under 10,000 in 1992 after most of the units that had started the development process by the end of the 1980s building boom had gone through the pipeline.[24] While condominium starts picked up in the following year, rental apartment starts did not, and in 2013 condominium starts were far, far greater than private multiunit rental starts.[25]

*Unfortunately, this reform had the side effect of severely damaging the vitality of the multiunit rental housing sector.*

The focus of tax reform was to increase tax neutrality, end tax expenditures and also, in the case of rental housing, to increase tax revenue. Unfortunately, this reform had the side effect of severely damaging the vitality of the multiunit rental housing sector. Instead, especially in large cities like Toronto, activity was diverted to renovation, including conversion of houses into several rental units, and to the construction of condominiums. The major motivation of condominium investors, unlike that of investors in multiunit buildings, was the expectation of capital gain, with many purchasers flipping their units before completion. The ability to invest as an individual without involvement in a real

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estate syndicate and without the necessity of doing much management – because many duties were handled by the condominium corporations – was appealing. An individual condominium unit was also far more liquid than a whole building or a share in a building and the investor had the option of selling the unit to an owner-occupier, if that market were better, or even occupying it himself or herself. Thus the supply of newly created rental units came to be largely condominium units and apartments created in converted houses (Steele, 1993) with the dominance of condominiums especially great in some of the largest cities – Toronto, Vancouver and Calgary.

Why does it matter that converted house and condominium units – and in some places, notably Calgary, rental single houses – have tended to replace multiunit rental buildings – after all, they both provide accommodation for tenants. In fact there are several reasons for concern. The first is the intrinsic insecurity of tenure associated with this rental. While terminating a tenancy is difficult in most provinces, there is an exception when the owner or a purchaser wishes to occupy the unit. For a tenant who is young and well off, being forced to move is not a problem, but for other tenants, a forced move may be disruptive and difficult. Consider especially, a family with children in school: the children face a possible change in schools in mid year, when after-school daycare arrangements may be tough to arrange and friendships will be damaged. The risk of having to vacate a unit when it is in a multiunit rental building is much lower – virtually zero in some places like Toronto where bylaws constrain landlords in their asset management and quite low even in Calgary and Edmonton where condominium conversions are common.

*Why does it matter that converted house and condominium units – and in some places, notably Calgary, rental single houses – have tended to replace multiunit rental buildings – after all, they both provide accommodation for tenants. In fact there are several reasons for concern.*

A second reason for concern is the absence of onsite management. A condominium building will not have a rental agent available for many hours a day to show available units to a walk-in prospect, possibly a new immigrant. There also may be no one on site to arrange for repair of an appliance. Most important, the manager will not be able to sign a contract to provide several units for a deep subsidy program such as Rent Supplements. Housing First clients are often housed in private buildings so that this is a very important defect in the condominium supply model.

*Most important, the manager will not be able to sign a contract to provide several units for a deep subsidy program such as Rent Supplements. Housing First clients are often housed in private buildings so that this is a very important defect in the condominium supply model.*

A third reason for concern is the reasonable presumption that the anti-discrimination provisions of provincial legislation – for instance, prohibiting discrimination against children – are easier to violate when a landlord has only one or a few units to rent. The increase in scale that comes with multiunit rental buildings increases visibility, making it less easy to avoid detection.

A fourth issue is the lower tax revenue yielded by a condominium unit than a unit in a multiunit rental building, under plausible assumptions. Tightening the screws on multiunit rental simply diverted taxpayers hunting for tax shelters and low-tax profit opportunities into other rental housing. In Steele (2009), taxes paid over the ownership period for a unit in an existing multi-unit rental building and in a resale condominium unit are compared. The tax revenue under *conservative* assumptions[26] is $5,000 less for the condominium than for the unit in a multiunit rental building, assuming the units are owned for 20 years. The high price of the condominium unit relative to rent depresses the net rental income of the condominium investor (rent net of interest on the mortgage and operating costs). There is little tax revenue over the ownership period, in contrast to the multiunit case. If units are bought and sold frequently – say, every five years –the tax situation is even worse: revenue is over $30,000 less from condominium investors. Indeed condominium investors are often willing to accept negative cash flow, much of it tax deductible, for several years in the expectation they will ultimately reap a large, lightly-taxed capital gain. Suppose a heart surgeon is the investor. When annual rental losses are deducted from his or her professional income, the surgeon's tax is reduced and governments lose revenue from this high-bracket taxpayer. When he ultimately sells, he pays a low tax on his capital gain.

The results cited above apply to existing units – specifically to existing units in Toronto – while we are primarily focused on new construction. New multiunit rental construction is virtually non-existent in Toronto so data do not exist for a comparison of a new multiunit rental unit with a new condo, but it is reasonable to infer that the same qualitative conclusions would hold, that is that a unit in a typical multiunit rental building would yield more tax revenue than one in a condominium.[27]

## Liberalizing current tax legislation governing multiunit rental housing[28]

The general thrust of our proposed changes is as follows:

1. More generous tax deductions for *multiunit* rental housing, especially in cities where the stock has stagnated in the last decade.

   Amendments will not apply to other rental real estate including single-detached houses, condominium units (except in special circumstances), and buildings with four or fewer units. Measures in most cases are also confined to markets where the stock has stagnated, in order to minimize tax expenditure, the program will be targeted to locations where it is most needed.

   *Amendments will not apply to other rental real estate including single-detached houses, condominium units (except in special circumstances), and buildings with four or fewer units.*

   Programs to subsidize private sector multiunit rental in the past were nationwide and had a large impact: the tax-incentive Multiple Unit Residential Building (MURB) program of the 1970s and early 1980s produced close to 200,000 units; under the Assisted Rental Program in which there was at first an explicit subsidy, and then an interest-free loan, 122,000 units were produced, 1975 to 1980 (Miron, 1993, pp. 391, 401). The attractions of condominiums to investors in the current environment means that a renewal of the MURB program would not produce nearly as many units as in the earlier period. In addition, the incentives proposed for new construction are less generous than the MURB was (so-called soft costs of development may not be deducted as an expense, in the proposal here) and include restrictions on leverage. Nonetheless, restriction to currently stagnant multiunit rental markets is important to minimize tax expenditure.

2. Restriction of some measures to *new* multiunit rental housing or capital expenditures to existing multiunit rental housing. See proposal 2 and 3, below. The measure for capital expenditure would apply to all existing multiunit rental to provide incentives for keeping up multiunit rental stock everywhere.

3. Restriction of some measures to *affordable* multiunit rental housing
   Affordable is defined in terms of a maximum rent that is less than 80 percent of average market rent

and a maximum income for tenants that is less than 125 percent of CMHC's household income limit (which varies by household size).

This point begs the question: why are not *all* measures restricted to affordable rental housing? Our major response is that it is of first importance for the implementation of Housing First policies via the use of deep Rent Supplements that there be sufficient multiunit rental stock. A simple, unrestricted program is the surest one to accomplish this goal. A second response is that through the filtering mechanism it is likely that some additional affordable units will become available when the total supply of multiunit rental is increased.

4. *New* investors – those not already owning a rental property – are the beneficiaries of certain amendments. In addition, purchasers, whether new investors in rental housing or not, will receive more benefit than current owners. See proposal 4.

5. Increasing cash flow *in the early years of ownership* is a focus. See proposals 1 to 4.

   This emphasis in our proposals on the early years makes sense because it is likely to have the greatest impact on investor response and investment in multiunit rental.

In some of the following proposals there is reference to an eligible market. This is defined as one where the "conventional rental stock" (as defined by CMHC in its rental survey) per capita has fallen by more than 25 percent in the previous 20 years; however, once a building has an eligible market provision applied to it, it would be able to continue under the provision even if its market became ineligible, so long as its owner did not change. All proposals applying to multiunit rental buildings would require that all units in the building are rental and rental management is unified for at least 25 years. The intent of this provision is to include buildings that are registered condominiums but to prevent their operation as a mix of owner-occupied and individually-managed investor units.

*An eligible market is defined as one where the "conventional rental stock" (as defined by CMHC in its rental survey) per capita has fallen by more than 25 percent in the previous 20 years...*

## **Proposal 1.** Increase the capital cost allowance (CCA) deduction available to multiunit rental (housing) buildings[29] in eligible markets to five percent from its current level of four percent.

This measure would help preserve the multiunit rental housing stock.

The increased deduction, five percent of the cost (more technically, undepreciated capital cost) of the building on a property, would increase the after-tax return to owners of multiunit rental buildings.[30] The deduction would be especially valuable to new purchasers.[31] Potential purchasers of a building who intend to maintain the multiunit rental nature of the building would be willing to pay a higher price for the building if the five percent CCA rate were in effect rather than the current 4 percent rate. This would reduce the likelihood that the building would be converted into a condominium building and increase funds available to maintain these units at an acceptable standard.

**Proposal 2.** Greatly accelerate depreciation of new construction for tax purposes: triple the CCA deduction rate to twelve percent from its current level of four percent for the first five years of life of any newly constructed multiunit rental building in eligible markets or of capital expenditures made to any such existing building. This program would apply to development starting within a five-year period of implementation of the program and to capital expenditures with no time limit.

The CCA rate for the building would return to five percent in year six. This measure would not only encourage the construction of new multiunit rental buildings but also would encourage renovation and renewal of the major part of the multiunit stock that was built in the 1960s and 1970s. This would aid in the preservation of the existing stock, making it less likely to be converted to condominium tenure or to be demolished. It would improve the physical adequacy of the stock and would help address the issue of the viability of the deteriorated older and often affordable part of the multiunit stock. It would bring help from the federal government for a problem some municipalities have already recognized, for example, in the Tower Renewal program in Toronto.[32] For this proposal to have the most effect, proposal 4 would also have to be implemented.

**Proposal 3.** Eliminate the "half-year rule" for multiunit rental buildings or capital expenditure to these buildings. Under this rule, in the year of purchase of a building or of capital expenditure, CCA may be deducted only at one-half of the rate set for later years.

Proposals 2 and 3 together would mean that an investor in a new multiunit rental building would be able to write off almost half the value of the new building within five years. The same would be true for a capital expenditure to an existing multiunit rental building. This is nearly three times the write-off over the same period that is currently possible. This would greatly increase the after-tax cash flow of the investment in the early years of ownership.

Just as during the early years of homeownership, the finances of the homeowner are typically under pressure, the early years in the life of a rental apartment building are apt to be ones of financial stress for the owner. This is the risky period when the building is being rented up. Rental revenue may be less than predicted in the first year or two if tenants are not attracted in sufficient numbers. Or expenses might be higher than expected. The extra cash flow from the high CCA deduction will substantially reduce the riskiness of the investment. In addition, the after-tax rate of return on the investment will be markedly increased. Because of the high discount rate of investors this large tax break in the early years of ownership will be worth much more than a similar tax break would be later in the life of the investment.

**Proposal 4.** Eliminate, for multiunit rental buildings, the rule that a rental loss cannot be created or increased by the deduction of CCA, subject to the provision that investors would be permitted to deduct interest only on debt of up to 85 percent of the purchase price of the property.

This proposal is required in order that proposals 1 to 3 stimulate investment by *new* investors.

Typically, a newly purchased multiunit rental building, whether new or existing, will not have rents high enough to cover operating expenses, interest expense *and* the CCA deduction. Under the current rules, that means the CCA deduction is initially of benefit only to an established real estate investor – one owning profit-making rental property.[33] Without implementation of this proposal, *new* investors are at a substantial disadvantage relative to investors already in the business. Essentially the current rule is a barrier to entry into this business.

The limit on the amount of debt with deductible interest is included to prevent excessive leverage in pursuit of a very large tax loss to deduct against income. It is aimed to prevent the worst excesses seen with the MURB program of the 1970s and 1980s.

## Real Estate Investment Trusts (REITs) and new multiunit rental building

Currently REITs own many thousands of units of multiunit rental buildings but rarely develop new ones (or partner with a developer to do so). This is largely a reflection of the poor economics, under the current income tax regime, of building multiunit rental along with the attractions of condominiums to investors. The proposals listed above would undo much of the tax reform of the 1980s that so damaged this kind of construction.

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An additional problem for REITs is that their shareholders – unitholders – often depend on the cash distributions, commonly made monthly, for income and so REITs distribute a high percentage of their cash flow. A REIT developing a property would need to use some of its cash flow, thus depriving unitholders of the immediate cash, hoping they would be patient investors, willing to wait until the cash flow from the property rolled in. This problem for REITs could be overcome by committing the REIT to purchase a completed building from a developer, so that the REIT would receive cash flow from the date of purchase. The REIT might still have to partially finance construction unless it or the developer had access to cheap enough bank or capital market financing.

An incentive for REITs to become involved in development is the role the CCA plays for those who hold REIT units outside RRSPs and other tax-free accounts. The distributions from the REIT's cash flow to its unitholders are fully taxable at a unitholder's marginal tax rate, except to the extent that the cash flow comes from capital gains (in which case the effective tax is at half the marginal tax rate) or *from the CCA deduction,* which is tax free.[34] For example, if 60 percent of the cash distribution to shareholders is attributable to the CCA, it would be designated as "return of capital" and only 40 percent of the cash distribution would be taxable. A taxpayer in the top marginal tax rate in Ontario would pay only about 20 percent tax on this distribution. The distributions of many REITs will include a large part that is tax free, but older REITs will likely own properties mostly acquired a long time ago. If they do, they will not have much CCA left to deduct and more of their cash distributions will be taxable.[35] A REIT wishing to reduce the tax rate on its distributions will thus need to buy additional property or develop a new one.[36] This may be an important incentive for development of a multiunit rental property, especially if proposals two and three are enacted.

## Tax programs to directly increase the amount of affordable multiunit rental supply

**Proposal 5.** A) Defer the tax due on sale of a multiunit rental building until the death of the vendor where the vendor is an individual, and for 40 years where the vendor is a corporation, so long as the property is sold to a buyer who commits to operating the property as an affordable multiunit building.

This proposal is aimed squarely at increasing the supply of *affordable* multiunit housing – or at least retaining existing affordable housing. A non-profit housing agency would be able to buy the property for less than an ordinary buyer – one unwilling to commit to the affordability provision –because of the tax advantages to the vendor of selling to a committed provider of affordable housing.

The scale of the taxes due on sale is not well appreciated. These taxes are a major impediment to sale by long-term owners, often locking them into their current investments. There are two that must be paid. The first, capital gains tax, is well known. This is tax on the appreciation of the property since its purchase and the rate is, in effect, half the income tax rate with a maximum of about 25 percent for Ontario taxpayers. The second, less well-known, tax is levied on the cumulated CCA taken. The tax rate on this is the full income tax rate, which has a maximum of about 50 percent.[37] Where a rental property has been held for two decades the total of these two taxes, using very conservative assumptions, could easily be about 20 percent of the selling value.[38] Where the property has been held for much longer – three or four decades – the tax rate on sale would be considerably higher under reasonable assumptions; the same is true if the rate of appreciation is higher than the low rate assumed here. A tax rate of 30 percent or more is easily possible.

For multiunit rental properties sold to a REIT, it is already true that tax need not be paid on sale (although it will have to be paid ultimately) because of trust structuring made possible by the REIT. For this reason the proposal would level the playing field between REITs and non-profits in the purchasing of existing large multiunit rental buildings. For REITs, small buildings – those with fewer than about 50 units – are not usually economic to manage. Non-profits would have a large advantage in the purchase of buildings of this size. Smaller buildings are just the right size for Housing First facilities used to house a group needing substantial support, so that this is a fortunate split in the market.

*...the proposal would level the playing field between REITs and non-profits in the purchasing of existing large multiunit rental buildings.*

B) Eliminate capital gains taxes for land donated to a non-profit housing organization or a registered public charity for the purpose of providing affordable housing.

This would be consistent with the treatment of donations of securities to charities and of art to cultural institutions. It would especially encourage the donation of land by those who had held the land for many years, possibly sometimes a developer who had acquired more land than needed for development activities.

## **Proposal 6.** Enact an affordable multiunit rental housing tax credit

A tax expenditure that would directly help non-profit as well as for-profit developers build new affordable housing and do major renovations is a tax *credit*. We propose one that would provide a deep subsidy for multiunit buildings providing housing at below-market rents primarily to low income tenants. We call this program the Affordable Housing Tax Credit (AHTC). This tax credit, along with the more conventional tax changes proposed earlier would make shares in the development saleable to profit-making corporations and to individuals with a substantial enough taxable income to use their share of the credits. Via the purchase of shares, these investors would inject a large amount of equity and through their oversight and pressure these developments would be pressed to provide affordable housing efficiently. In return, the tax credits would reduce the investors' taxes.

Developers would be either non-profit or for-profit and normally would also manage and operate the project. The legal structure under which the development would be owned would usually be that of a General Partner (the developer-manager) and Limited Partners (the investors). The developer-manager would usually have the right to the residual value of the property in return for bearing the downside risk of the development and doing the development. The investors would typically have the right to any tax loss created by the CCA, as well, of course to the tax credits.

*Via the purchase of shares, these investors would inject a large amount of equity and through their oversight and pressure these developments would be pressed to provide affordable housing efficiently.*

The proposal outlined here is modeled in major respects on the Low Income Housing Tax Credit (LIHTC) in the US (Steele and des Rosiers, 2009). 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.[39] The housing credit has also funded thousands of units of for-profit housing, often targeted at moderate income families.

The Manitoba government last year showed once more its readiness to lead the way in housing policy by introducing the Rental Housing Construction (RHC) Tax Credit[40] (Manitoba, 2013). For-profit and non-profit developers that have affordable units making up 10 percent of more of a development would be entitled to a tax credit equal to the lesser of $12,000 per unit of all units in the project or 8 percent of the total development cost (construction, land and soft costs). Thus a developer with precisely 10 percent of the affordable units could receive a subsidy approaching 80 percent of the cost of the affordable units in credits. For-profit developers would receive the credits in installments over four years, starting with an installment when the units were ready for rental. They would be deductible against Manitoba income tax payable.[41]

*The Manitoba government last year showed once more its readiness to lead the way in housing policy by introducing the Rental Housing Construction (RHC) Tax Credit.*

Unlike the tax incentives proposed earlier, the cost of the AHTC to the government would be set in advance. To achieve this, we set a maximum for the total dollar amount of credits awarded for any one year. The government revenue cost would be known as soon as this amount is set because the cost does not vary with the tax rate of the taxpayer, unlike tax incentives proposed earlier. The credits would be allocated to provinces and territories based on CMHC's assessment of core housing need and a provincial body in each province – or group of provinces or territories where the latter are small – would take applications for the credits and award them according to set criteria.[42] A suitable body charged with allocating the credits would be one like BC Housing.

We propose that at least half the credits be allocated to non-profit developers,[43] that rents for credit units be required to be no more than 80 percent of market rent and that occupants of the units, on entry, be required to have an income less than 125 percent of CMHC's Household Income Limit. All developments except for those providing permanent housing for the chronic homeless would be required to keep at least 15 percent 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,[44] be required to respond affirmatively to any housing provider that wishes to enter into a contract for RS for up to 20 percent of units. This would insure that sufficient units would be available for Housing First clients.

Both to lessen the immediate burden on government budgets and to ensure a medium-term commitment by investors, the credits would take the form of a stream of five annual credits received by the investors, like those in Manitoba, over a four year period starting at the date units are ready for rental. The present value of these credits would equal 100 percent of construction cost, where the present value is determined using as a discount rate the federal government's long-term bond yield plus two percent, a rate between the government's discount rate – its long-term bond yield – and a typical investors' discount rate.[45]

We would hope that the provinces and municipalities would aid the non-profit AHTC developments by providing land, where possible. Ingenuity in intensifying land use where there are municipal buildings might be an aspect of this. Provinces might also provide support in the form of a top-up, in a sense following Manitoba's lead.

The federal government financial commitment for each development, four years, would be much shorter than true for 1970s and 1980s non-profit and co-op projects but at least as long as the AHP commitments of the 2000s. The developer of a credit project would be required to keep the project as affordable housing for 25 years and the CRA would be responsible for monitoring this commitment.

*Syndicators perform most of the functions that government do for grant programs and their fees should be seen as compensation for important services that contribute to the fiscal soundness of the program.*

It is expected that most tax credit developments will involve syndicators who would sell part ownership of developments to investors. Syndicators would be needed because for-profit developers would not have sufficient – and non-profits would not have any – tax payable to permit them to use all the credits. For example if the developer has only $50,000 of tax owing, a credit of $75,000 would not be fully usable in the year received.[46] For this reason, the developer needs partners who would use a share of the credits. Typically the developer would negotiate with a syndicator who would undertake to sell shares in the development. The revenue from the sale of the shares would provide equity, ensuring a small mortgage.

The syndicators would be responsible for initial monitoring of developments and advice to applicants for the credits. Until the program becomes well known syndicators' fees may be relatively high but experience in the US has shown that these fees fall to quite low levels over time. Syndicators perform most of the functions that government do for grant programs and their fees should be seen as compensation for important services that contribute to the fiscal soundness of the program. The break-in of the program is anticipated to be less costly in Canada than in the US because of the transfer of knowledge from the US to Canada, in part because of the experience of several Canadian banks. For example TD invested US$296 million in 2011 in credits funding 36 US housing projects.[47] At least one bank is involved as a syndicator – RBC Capital Markets, through its Tax Credit Equity Group, has raised over $5 billion through the US LIHTC and other housing tax credit programs and it administers more than 750 affordable housing and new markets developments.[48]

# Extending, reviving, and amending explicit grant-funded social housing programs

## **Proposal 7.** Continue some existing federal funding for public housing, co-ops and non-profits

Starting in 1973, the federal government moved from building public housing, which was 100 percent RGI, to housing designed to be mixed income, managed by co-ops and municipal and private non-profits. The intent was to avoid the problems encountered in large public housing development where low-income households were essentially "contained" and shut off from the community around them. It was expected that by providing subsidies for the construction of the units, housing managers could charge low-end-of-market rent to middle-income households; additional operating subsidies allowed some tenants to pay RGI rents. It was expected that these developments, which tended to be more ground oriented and less separated physically from surrounding neighbourhood than public housing units, would allow low-income households to integrate more fully in the community. It was also anticipated that they and their children would benefit from interacting with middle income households more closely.

There was considerable negative public reaction to the concept of middle income households living in "subsidized" units, largely as a result of misunderstanding of the program. The rents these tenants paid were the same as what they would have paid in a similar private-market rental unit – subsidies were necessary only because market rents were lower than rents needed to finance new rental construction in most large cities.

The capital cost of most of these units was financed 100% by the federal government with annual operating subsidies cost shared with the province and territories. In 1986, concern about the extent of the subsidies and cost of the units being built, led to a revision of the program to require tenants to be 100% RGI and costs to be shared with the provinces and territories for both construction and annual operating subsidies. During this period, CMHC also gradually turned administrative responsibility for all public and social housing over to the provinces and territories under Social Housing Agreements (SHA) (except for Quebec, PEI and Alberta which did not sign SHAs and whose social housing remains the responsibility of the federal government). In 1993 all federal funding was terminated for social housing. Some provinces (notably British Columbia and Quebec) continued to build new units but in most areas the production of new social housing units ceased.

*In 1993 all federal funding was terminated for additional social housing.*

The social housing built in the 1970s and 1980s had operating agreements ranging from 25 to 50 years. When CMHC devolved administrative responsibility to the provinces and territories for all social housing except most of the federal co-ops, they agreed to continue their share of funding at 1994-95 levels until the operating agreements expired. This meant that funding for some projects, when interest rates fell, was higher than if funding had been kept as set out in the original agreements.

These agreements are gradually coming to an end; by 2020 the majority will have expired. CMHC has made no commitment to extending them; in fact CMHC budget projections show their funding commitments ending over time.

When these developments were built, the expectation was that by the time the agreements ended, the mortgages on the properties would be paid off and that tenants' RGI rents would be sufficient to cover the operating costs for these complexes. However, with rising utility rates and the increased maintenance costs associated with the age of the stock, operating costs for many housing providers will not allow for RGI rents after the agreements end – that is the funds from the federal government currently received by these housing providers cover more than just the mortgage payments. In fact, providers may need to raise rents for market rent tenants to a degree that makes them unaffordable for this group as well.

Approximately 200,000 low-income households live in units for which they pay RGI rents, *for which federal agreements with the housing providers are coming to an end*, and who are at risk once these agreements expire according to a study by Focus Consulting (Pomeroy, 2011).

*Approximately 200,000 low-income households live in units for which they pay RGI rents, for which federal agreements with the housing providers are coming to an end, and who are at risk once these agreements expire...*

This is existing social housing which is at risk of being converted to market housing if funding is not continued. In some cases there may be redevelopment potential – for either condominium development or a commercial use, depending on location. It is much more cost effective to keep these units affordable through some form of ongoing annual subsidy than to try to replace them.

Aside from the annual operating deficits that many of these properties would experience without ongoing subsidy, their age means they are facing significant capital costs if they are to be kept well maintained. Many have a backlog of deferred maintenance and/or could benefit from energy retrofits. Some headway was made in this area through programs offered by the Canada-Provincial Affordable Housing Initiative stimulus funding of 2009. But the stock continues to age and will require ongoing investment to retain its structural integrity.

Some providers may be able to continue offering low rents to households but others will require continuing subsidies to keep their units affordable. The amount of federal funding for assisted housing was just over $1.72 billion in 2013 (CMHC Annual Report 2013).[49] Even for social housing complexes which can finance RGI rents without ongoing subsidy, there is an argument for having continuing operating agreements.

These allow the local authority to review the budgets and operating statements to ensure responsible fiscal management and that rents remain low. If there are no such agreements there is no guarantee that over time the units will not gradually move to market rent. We suggest that agreements be signed with all current social housing providers to ensure rents remain at reasonable levels for RGI households. The level of subsidy required for each development will vary based on their current financial position once their mortgage loan is repaid. Those who don't require operating subsidies will be able to use their (reduced) subsidy for capital improvements. Others will need an allowance for both operating and capital subsidy.

The subsidies will be lower since they will no longer cover mortgage payments. The data are not available to estimate the required amount of continuing subsidy from the federal government. Some case studies have been done but these have concentrated on the social housing that is expected to have difficulties operating after the subsidies end. We propose that half of the current annual federal expenditure of $1.7 billion ($850 million) be allocated to keep this housing viable and affordable.

## **Proposal 8.** Renew for ten years – and index to inflation – funding for the Investment in Affordable Housing (which combines the Affordable Housing Initiative (AHI) and the Residential Rehabilitation Assistance program (RRAP)) and Homelessness Partnering Strategy (HPS)

In 2001, after no federal funding for affordable housing for an eight year period, CMHC announced the AHI, with the costs to be shared 50:50 between the federal government and the provinces/territories. The AHI had a relatively small budget of $1 billion over 8 years ($125 million per year), shared among the provinces and territories on a per capita basis.

This program provides capital grants to developers of affordable rental housing – private sector or non-profit. The grants are funded on a shared basis by CMHC, the province or territory, and in some cases the municipality (often in the form of forgiveness of development charges). The grants reduce the capital cost to the developer to make it financially feasible for them to charge market rents or lower for their units (market rents as determined by the most recent CMHC rental market survey for their area).

This program differs slightly across the country depending on how the province or territory has structured it within the criteria set by CMHC. In Ontario for example, the developer must agree to keep average unit rents in the building at 80 percent of average market rents for 20 years. There are no ongoing operating subsidies. So although these units are deemed "affordable", there is no ongoing subsidy for the operation of the building to allow landlords to charge RGI rents to low-income tenants. The consequence is that, for most of those on the waiting list for social housing, the rent charged would be much higher than 30 percent of their income. In some buildings, additional, tenant-based funding has been available to reduce rent burdens but in most cases this is temporary and helps only a few tenants.

Although the units built under this program do not provide RGI housing, the program is useful because it encourages the production of new affordable multiunit rental housing in Canada. AHI has created 27,000 units since 2001 - not nearly the number required but better than no new units.

Funding under AHI has typically been announced without warning and with a very tight timeline for expenditure of funds, requiring "shovel-ready" projects in order to begin construction quickly. The annual amount each area receives is not known until the announcement is made – CMHC spent $418m in 2012 and $298m in 2013.[51]

*The actual number of rental units produced with this amount of funding will be insufficient to meet the need for affordable rental stock.*

Negotiations with the provinces are underway to extend this program for 2014-2019, folding in the RRAP with it; our proposal would extend it to 2024. The commitment is for just $253m per year nationally however. These funds can be used to stimulate new rental construction, for rent supplements, for down payments for low-income home ownership etc. The actual number of rental units produced with this amount of funding will be insufficient to meet the need for affordable rental stock. Information about the way AHI funding has been used, by province, is provided in Appendix C.

In 1999, the federal government initiated the National Homeless Initiative (now the HPS), which provided capital and operational funding to shelters and service providers working with homeless persons. This program has evolved over time in name and function; the 2014-2019 funding is the first time five years of funding have been announced at once; this provides greater local planning ability, albeit at the same levels of funding as prior years despite increasing need and inflation.

The HPS now requires larger centres receiving higher levels of funding to use a certain percentage of their funds for a Housing First strategy: finding permanent housing for the chronic homeless and providing supports to keep them housed. The funds for this program flow directly to local communities; there is no cost- sharing agreement with the province or territory involved. Each community sets its own priorities for using the funds within the HPS guidelines and local Community Advisory Boards allocate the funds.

This program helps provide some of the services without which Housing First cannot work as a program. Our proposal would put it on a firmer footing that would help it be more effective.

### **Proposal 9.** The federal government should assist local municipalities to set up Affordable Housing Trust Funds.

An arms-length agency would be set up to administer these. They could offer a range of programs depending on the resources and capability of each municipality. The federal and provincial governments could help create this capacity at the local level and perhaps provide some seed money to help set up trust funds in smaller communities.

The activities undertaken by the trust could include grants and/or loans to non-profit or for-profit developers for the construction or renovation of affordable rental housing. Another activity might be funding for a municipal land bank which would lease land to affordable housing providers, reducing their capital cost. The lower borrowing cost faced by the municipality would allow the loans to be made at lower rates than the developers face in the market. As well, trust funds would help less-experienced developers, who have difficulty securing loans, to buy land or to finance construction.

Funding for the trust fund could come from annual budget contributions, federal/provincial grants for affordable housing or from municipal borrowing.

Over 100 of these funds have been created in the U.S. at the local or state level. There are several under consideration in Canada, but the tool has not been widely adopted. Sources of funds at the state level in the U.S. have included real estate transaction fees such as land transfer taxes and interest on real estate escrow funds. At the municipal level, fees for things like density bonusing have been used to generate revenue. In general, the funds are raised from some sort of real estate activity.

CMHC has created a Guide to Creating Housing trust Funds in Canada; this could be updated and more broadly disseminated, with workshops to help municipalities plan for the development

## **Proposal 10.** Modified Rent Supplements for 20,000 of the chronically homeless

We have made proposals that would sustain existing social housing. Others would increase the number of multiunit rental housing units, but some of these would not increase the amount of *affordable* housing units. Even AHTC and AHI units, unless enriched by additional funding, would not provide housing heavily enough subsidized to provide housing accessible to the chronic homeless. Top-ups are needed. The top-up proposed here is a Rent Supplement (RS), a deep monthly subsidy that depends on rent and income.

RS were part of the federal government mix of affordable housing programs from the 1970s and they have continued in use under these old agreements. The standard formula for the RS subsidy is simply the rent of the housing unit minus 30 percent of the income of the tenant. This subsidy goes directly to the landlord who has signed a contract with a social housing agency, while the tenant pays the rest of the rent, 30 percent of income. At a given income level, the amount the *tenant pays* generally will not vary from one tenant to another for a given household size. But the *subsidy* will be highly variable. It will be much greater in a high-rent city like Toronto or Vancouver than in a low-rent city. The subsidy will also be much greater if the assisted tenant is living in a new private building rather than in a non-profit market-rent unit that was built many years ago.

*Even AHTC and AHI units, unless enriched by additional funding, would not provide housing heavily enough subsidized to provide housing accessible to the chronic homeless. Top-ups are needed. The top-up proposed here is a Rent Supplement (RS), a deep monthly subsidy that depends on rent and income.*

The standard RGI formula used for the RS when the tenant is a social assistance recipient does not take into account the needs basis of social assistance payments. The conventional rule for rent – 30 percent of income – makes no sense in this context because the income of social assistance recipients is itself *derived* by adding up the amounts for various needs, starting with shelter and food. There is a chicken and egg problem if the standard RGI formula is used. The modification proposed is to set the rent paid by a tenant receiving social assistance not at 30 percent of income but at approximately its social assistance housing component (actual or imputed). This tenant's rent then will come from its social assistance payment. Where, as in Ontario, the shelter component is set equal to actual rent up to a maximum, this maximum would be the rent paid by the tenant.[52] How much is the shelter component of social assistance? In 2014 in Ontario, for a single disabled person the maximum is $479 and in BC is $375.[53] While there is no explicit housing component in Quebec, the "minimum rent" in its Allocation-Logement program for single persons age 52 and over is a closely related concept; it is $308.[54] Other provinces do not separate out the housing component but the *total* annual social assistance for a single disabled person lies within a fairly narrow range right across the country -- from $8, 479 in New Brunswick to $12.790 in Ontario.[55] This supports our use of a deemed shelter component that differs little across the country.

We note that the Rent Supplements proposed would be totally federally funded. This leaves fiscal room for the provinces to provide subsidies for supportive services, usually needed for the chronically homeless. The estimated cost of this proposal is $136.5 million per year. Details of the estimation of this cost are given in Appendix D. The supplements would be allocated directly to local communities as HPS funds are.

## **Proposal 11.** A Housing Benefit (HB) A program to assist those who face a severe affordability problem in their current accommodation

Our final proposal is targeted at very low-income households who are already in housing and may have no wish to move but have a severe affordability problem. They very largely live in large cities because that is where housing costs are highest. Figures 4 and 5, earlier in this report, show the extent of this problem – *most* renters with an income between $10,000 and $20,000, often working poor, in Halifax, Toronto, Calgary, Edmonton and Vancouver pay over half their income in rent. These renters are precariously housed, struggling to pay their rent and apt to fall into homelessness if they face an unexpected car repair bill or become sick and cannot work and pay their landlord. Most of the transitionally homeless are in the same boat; after being homeless for a week or so they may find housing again, but, with a high rent bill, their situation is precarious. Some might be living in market rent units in social housing, or in units in affordable housing built under the federal Affordable Housing Initiative -- where rents, at 80 percent of market, are still high enough to place a strain on their budget.

*Our final proposal is targeted at very low-income households who are already in housing and may have no wish to move but have a severe affordability problem. They very largely live in large cities because that is where housing costs are highest.*

The proposed housing benefit would be a monthly cash payment going to a household with a low income and burdensome housing costs. It would be delivered through the income tax system and deposited into the recipient's bank account, in much the same way as child tax benefits are. It would help families but its most important contribution would be its help for singles under 65 who account for the great majority of the homeless. Existing social housing and tax credit programs target families with children and the elderly, leaving singles the most desperately poor. It is entirely predictable that singles, who have been largely omitted from assistance programs, are the dominant homeless group (Early, 2004) as well as clients of soup kitchens. Singles also account for almost half of the clients of food banks (DBFB, 2014).

*Existing social housing and tax credit programs target families with children and the elderly, leaving singles the most desperately poor.*

The housing benefit would not be large but would make the difference, for some, between hanging onto housing and losing it. It would provide crucial cash to pay for groceries, utilities, transportation, children's clothing or other necessities when otherwise there is too little left from income after paying high housing costs. The housing benefit would be calculated as 75 percent of the gap between housing costs and a reasonable contribution from the recipient – with a maximum set for the housing costs that could be counted in the calculation. This maximum rent (in combination with another aspect of the formula) also serves to limit the income of recipients – for example a family of two parents and two children would be eligible for a HB only if its income were under $36,000, no matter what rent it were paying. The maximum income for eligibility of a single would be about $22,000; *average* incomes would be much lower. The reasonable contribution from the recipient would depend partly on income – in the case of most working childless couples and single parents, 30 percent of income. For details of all aspects of this formula see Appendix E.[56]

The payment of just 75 percent, rather than 100 percent, of the gap is designed to encourage recipients to minimize housing costs and to discourage landlords from increasing rent.[57] A landlord's desire to capture some of the benefit would also be stymied by lack of knowledge – landlords would have no way of knowing the amount of a tenant's benefit and indeed even whether or not the tenant is receiving any benefit at all, since it goes directly to the tenant.[58]

All very low-income people would be eligible for the HB except full-time students and those 65 or over and in receipt of Old Age Security (OAS). Those over 65 are already the beneficiaries of special federal tax breaks, and housing assistance programs in most, if not all, provinces (Steele, 2007). The benefit program would however, help those who are not recipients of OAS and yet are over 65 – elderly immigrants, in Canada too short a time to qualify and – if the projected delay in the start of the OAS until age 67 takes effect – in the future, for 65 and 66 year- olds.

A housing benefit of this kind has been paid in Quebec for over a decade, although it is capped at only $80 a month, substantially less than the one we propose, and it does not help childless non-elderly singles or couples unless they are age 52 or more.[59] A similar housing benefit has been proposed by a widely-based coalition of groups for Ontario (Pomeroy et al., 2008). Manitoba, British Columbia, and Saskatchewan all have programs to help with housing costs by providing monthly cash benefits although in no case are they as comprehensive in coverage as the program we propose. Australia and many European countries also have cash housing benefits (Kemp, 2007). The Quebec program covers home owners as well as renters, but only a small proportion of recipients are owners, as we expect would be true for a Canada-wide benefit.

Ontario as well as Quebec have had experience for many years with an income-tax based program for which rent receipts (and in the case of Quebec, homeowner cost receipts) are required;[60] in these two provinces little would change in what is requested of potential recipients, especially with Ontario's move to the Trillium monthly benefit. As in the case of child tax benefit we would expect that the federal government would negotiate with any province that wished to change the parameters of the program. This negotiation would be particularly important in the case of the provinces like Saskatchewan and Quebec that already have a program for some households.

A strength of the program is CRA's experience in handling monthly benefits, dealing with housing cost receipts and monitoring. Delivery through the tax system would also minimize the application burden and would keep down administrative costs. These advantages are purchased at a price: changes in circumstances, such as an increase in rent or a decrease in income, are only taken into account with a long lag. This is similar to the lag that occurs with the child tax benefit. The lag after a rent increase would be reduced if application were at a later date than the tax return, as in Quebec. There, the benefit is administered by Revenue Québec, but application is made, not as part of the income tax and benefit return in the spring, but by October 1, so that rent increases for the year are almost always in place. This minimizes lags behind rent increases, and applicants need not give income information because it is already on file at Revenue Quebec.

*For those who are homeless at the time of their income tax and benefit return – which the homeless would submit in order to receive the refundable GST/HST credit and, in the case of those with children, child tax benefits – arrangements would be made to accumulate a reserve fund.*

We propose a special provision to assist the homeless. For those who are homeless at the time of their income tax and benefit return – which the homeless would submit in order to receive the refundable GST/HST credit and, in the case of those with children, child tax benefits – arrangements would be made to accumulate a reserve fund. Payments would be sent by the Canada Revenue Agency (CRA) to a municipal agency that would administer the fund, and would be equal to the housing benefit the household would have received if it had been paying rent equal to a specified amount. The benefits would accumulate until they reached the total of the typical first and last month rent. If the homeless person (or family) found housing they would be able to use the reserve fund kept in their name; the mechanics would require some private or municipal agency to lend the homeless person the funds to pay the landlord and then the homeless person would give the receipt from the landlord (or cancelled cheques and a copy of a lease) to the lending agency which then would be repaid from the reserve fund.[61]

For those who are concerned about the effect of this benefit on incentives to work we have three responses. First, the lag in the response to changes in income – implicit in the use of the income tax system – is an advantage here. A person moving to a better paid job would enjoy higher earnings for many months – in fact as long as a year and a half – before suffering any reduction in housing benefit. Furthermore, during that time rent would also likely increase, at least partially offsetting the housing benefit reduction resulting from the income increase. Second, for the lowest income recipients over a range of income increase there would be no effect on the benefit (see Appendix E). Third, the effect on the incentive to work would be much less than for households living in RGI housing, for two reasons: first, RGI rules require that the tenant's rent payment rise very soon after any income increase so the tenant receiving the HB has much more time to enjoy the full increase in income and second, RGI rules mean a couple or a single parent would find its subsidy falling by more than housing benefit recipients (see Appendix E).[62]

*A person moving to a better paid job would enjoy higher earnings for many months – in fact as long as a year and a half – before suffering any reduction in housing benefit.*

The estimated cost of the housing benefit for renters is $817.08 million annually; $428.28 of this would be for families and $388.8 would be for singles. The number of family recipients is estimated at 215,000 and the number of singles and childless couples is estimated at 360,000. The estimated amount to provide for those who are homeless at income tax and benefit return time is $54 million and this would cover 50,000 recipients. Adding this amount to the renter total we get $871.08 million, and a total of 625,000 recipients.

The estimated cost of the housing benefit for owners is $247.92 million, bringing the total cost of the benefit to $1,119 billion. The estimated number of owner recipients is 211,000; of these a much higher proportion are families than in the case of renters – 105,000 are in that group. Estimation details are given in Appendix F.

## The HB and the RS compared

*The RS is designed to move people into housing and the HB, to improve the housing affordability somewhat of those already housed. Several differences in design make the RS much more expensive per recipient.*

Some readers may wonder, given our proposal for an HB, why rent supplements are also needed. Fundamentally, the reason is that the latter are much deeper subsidies. This can be immediately seen by comparing the average annual amount per recipient in the two programs. The average rent supplement is estimated at $569 per month while the average HB is just $130.[63]

Why is there the huge difference in subsidy – one over four times the other? A general characterization that should help shed light in this is that the RS is designed to *move people into housing* and the HB, to improve the housing affordability somewhat of those *already housed*. Several differences in design make the RS much more expensive per recipient. First, the whole difference between the rent of the recipient's unit and a reasonable rent is paid, not just 75 percent. Second there is a quite tough maximum rent constraint in the HB formula but not in the RS design. Third, the average income of RS recipients is lower, reducing their contribution to the rent. Fourth, units available for the RS are restricted by the bureaucracy required as well as other conditions: a housing agency negotiates and signs a contract with the landlord, often for five years, a far longer period than the normal lease; the landlord must be willing to have the agency inspect the units; and units must satisfy a size requirement. A higher rent is the consequence of these requirements.

These requirements skew up the rents paid for RS units. An example illuminating this is the following: a mother with two children, a girl of 9 and a boy of 5 might make do with a two bedroom apartment in a 20-unit wood-frame walk-up and receive the HB to help with a rent that is substantially lower than that of a RS unit occupied by a family of the same composition in a 200-unit building with an elevator. The effect on the rent of the different kind of building would be exacerbated by the standard RS requirement that a family of this composition must have three bedrooms.[64]

# Concluding remarks

We started this report by pointing out that the federal government's spending on rental housing for low-income Canadians has shrunk to low levels, even as tax expenditures for owner-occupied housing, almost entirely occupied by middle and high income Canadians, has risen. This has exacerbated the harmful effect of the removal in the 1980s of tax breaks for rental housing, which has contributed to the virtual halt in construction of multiunit residential rental buildings in some markets. We have shown that the deterioration of spending in Canada is in contrast to the much greater generosity of the federal government in the US. Without action, this policy not only means that there will be no increase in the number of low-income people who are assisted, but also means there will be an actual fall in the social housing stock accompanied in some places by a further decline in the stock of private multiunit rental units.

*The decline in housing expenditure to assist low-income people, at the same time that income inequality has increased, has put the budgets of those at the bottom of the heap under great strain. Manifestations of this are the increased number of homeless in the last two decades and the remarkably high incidence of severe housing affordability problems...*

The decline in housing expenditure to assist low-income people, at the same time that income inequality has increased, has put the budgets of those at the bottom of the heap under great strain. Manifestations of this are the increased number of homeless in the last two decades and the remarkably high incidence of severe housing affordability problems in large cities, making hundreds of thousands precariously housed and in danger of homelessness.

The great reduction in multiunit rental construction over the last three decades has been accompanied by conversions of houses into rental units, sometimes at the luxury level, and an increase in new condominium units rented out by individual owners. This has changed the nature of the private rental stock and has made it more difficult for newcomers and the hard-to-house to find housing, reduced the security of tenure of renters and has meant less rental stock has been available for contracts under subsidy programs such as Rent Supplements. Yet RS are a major way the chronic homeless are moved off the streets and into housing; the policy of Housing First needs RS.

The policies advocated in this report aim to tackle this multifaceted problem with a bundle of targeted programs. First, we propose that certain tax incentives for rental housing be restored and in some cases made more generous, in order to stimulate, in eligible markets like Calgary and Toronto, a turnaround in multiunit rental construction and to reduce conversions to condominium tenure. The incentives for new construction would apply only to multiunit rental housing that is committed to remain in this state for 25 years and are aimed to encourage new investors as well as those currently holding multiunit rental real estate.

Second, we propose two programs to increase the *affordable* multiunit stock, where rents would be restricted to 80 percent of market and with incoming tenants restricted to those below a set income level. The first of these would be a deferral of tax due on sale, to reward owners of existing private multiunit rental properties who sell them for use as affordable housing. The second would be a generous tax credit scheme for newly built affordable housing; in order to restrict tax expenditure, the total amount of the tax credits would be set in advance and would be awarded by the provinces. Half of the tax credits would be designated for non-profit organizations, including municipal agencies. We expect some of these buildings would be small ones built as supportive housing for the chronic homeless.

*We propose that certain tax incentives for rental housing be restored and in some cases made more generous, in order to stimulate, in eligible markets like Calgary and Toronto, a turnaround in multiunit rental construction and to reduce conversions to condominium tenure.*

For chronic and episodically homeless individuals and families we propose a special RS program of 20,000 rent supplements. While this would be a very deep subsidy, it is, nonetheless, not only more humane but also much less costly than the shelter system – and also would save costs for hospitals and other publicly-funded systems dealing with the homeless. Implementing Housing First by moving the chronic homeless into permanent housing ultimately is cost-saving. The supplements would be awarded mainly to agencies in the cities where chronic and episodically homeless numbers are the highest.

*...a generous tax credit scheme for newly built affordable housing; in order to restrict tax expenditure, the total amount of the tax credits would be set in advance and would be awarded by the provinces.*

For the transitionally homeless as well as the precariously housed – specifically those who are in danger of homelessness because of severe housing cost burdens – we propose a housing benefit. This would be a monthly cash payment dependent on housing costs and income. Like the child tax benefit it would be administered through the tax system and would be deposited into the recipient's bank account. It would be reminiscent of some existing programs: Quebec has run a program like this for over a decade, and Manitoba, BC and Saskatchewan provide monthly housing allowances based on rent and income to selected individuals and families. The proposed program would help, among others, singles under 65, the dominant group among the homeless, the most desperately poor of all groups and the group least assisted by existing provincial housing benefit programs.

In the Table 1 we give the numbers of *homeless* who need to be housed and the numbers in core housing need, the precariously housed who are at risk of homelessness. In Table 2 are given the units provided – or households assisted – by the various proposals. Note that the *precariously housed* is a far larger group than the actual homeless and that is reflected in the numbers in the table; the cost of assistance is much less per household, however, as is reflected in the subsidy estimates in Table 3.

Table 1. **NEED FOR UNITS TO HOUSE THE HOMELESS AND FOR HOUSING COST ASSISTANCE**

| Homeless households | | Indicator of precariously housing | |
|---|---|---|---|
| **Chronically and episodically** | **Transitionally** | **In core need, 2006** | |
| | | Renters | Owners |
| 28,000 | 110,000 | 982,000 | 513,000 |

Sources: Housing needed for homeless households are from the main text. Core need numbers are based on the 2006 Census, from CMHC

Table 2. **AFFORDABLE SUPPLY: NUMBERS OF UNITS AND RECIPIENTS OF ASSISTANCE IN MARKET-RENT UNITS BY PROGRAM**

| | Homeless households | | Precariously housed | | |
|---|---|---|---|---|---|
| | **Chronically and episodically** | **Transitionally** | **Renters** | **Owners** | **Totals by program** |
| **Social housing turnover** | 1,000 | 7,000 | 32,500 | | 40,500 |
| **Rent Supplement for chronically homeless in market-rent social housing and private sector units** | 20,000 | | | | 20,000 |
| **Affordable Housing Tax Credit affordable units (10 years)** | 2,000 | 30,000 | 16,000 | | 48,000 |
| **Affordable Housing Intiative and Homeless Partnering Strategy (10 years)** | 5,000 | 18,000 | 6,000 | | 29,000 |
| **Housing Benefit in market-rent social housing and private sector units** | | | 520,000 | 211,000 | 786,000 |
| **Totals by current situation of household** | **28,000** | **110,000** | **574,500** | **211,000** | **923,500** |

Sources: numbers by program are taken from the main text except for the two capital programs. The number of units yielded by the AHTC over ten years is estimated as $721.57 million, the present value to investors of the stream of credits divided by the assumed cost (excluding land) of $150,000 per unit. For units funded by AHI and HPS it is assumed that there is $200 million AHI federal funding matched by the provinces.yielding $400 million and to that is added $100 million for new buildings from HPS, yielding $500 million annually. This is divided by costs including land per unit of $175,000 to yield the number of units.

Programs adding more multiunit affordable housing would be for naught if existing affordable housing were not preserved. Currently, social housing funded by the federal-provincial/territorial programs is under threat because of the current and upcoming expiry of agreements entered into some decades ago. The end of these agreements means the end of mortgage payments but also the end of subsidies. We propose that half the current expenditures of the federal government in support of these social housing projects on an annual basis be continued, and indexed to inflation. These funds would be targeted at those social housing projects that would be in trouble: public housing built in the 1960s and those projects developed in the 1970s and 1980s which are largely rented on a RGI basis. The latter, in Ontario, are the ones where rents do not cover operating cost (Re/Fact Consulting, 2012). At the same time, projects running at a loss on an operating basis because of the province of Ontario's policy of paying extremely low rents for social assistance tenants in social housing - for example only $115 for a single and $221 for a lone parent with one child[65] will be aided only after the rents paid to providers on behalf of social assistance recipients are raised to a more realistic level.

Many existing social housing projects are also in need of major renovations and repairs. Some of the funds for this may be raised through value creation such as that exemplified by the Regent Park revitalization in Toronto. Projects that are less well located will not be able to replicate this. For them, we suggest that the matching provincial funding released when the agreements expire and mortgages are paid off should be largely devoted to repair and renovation. We note that at least one province, Quebec, has already started doing this. It allocated $308 million in its 2012 budget and $336 million in its 2013 budget for this purpose.[66]

Finally, we propose that the modest funding for three current housing programs – the AHI, RRAP and the HPS – be extended for ten years and funding be put on an inflation-indexed basis. This long-term commitment contrasts with the current situation and will allow provinces to plan in a way that has been impossible up to now. It is also true that the federal programs proposed here will free up a substantial part of AHI funds by making some existing programs redundant – for example tens of millions of dollars are now provided to Quebec and BC to help fund their housing benefits and these funds will become available for new construction, repair and renovation.

The costs of the various proposals are given in Table 3, as well as the grand total of costs, $3.4 billion.

Table 3. **EXPENDITURE ESTIMATES, PROPOSED PROGRAMS**

| | Explicit expenditures | | | | | | Total | Tax expenditures | | | Total | **Grand Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Existing programs | | | New programs | | | | | | | | |
| | Current CMHC commit-ments | Subsidy to projects after end of existing agreements | AHI, RRAP, HPS | Rent Sups for chronic home-lessness | Housing Benefit: Renters | Housing Benefit: Owners | | Affordable Housing Tax Credit (Prop. 6) | Tax relief, multiunit, rental (Prop 1-4) | Tax relief on sales for affordable use and donations (Prop. 5) | | |
| **Year** | (millons of current dollars) | | | | | | | | | | | |
| **2016** | 1250 | 225 | 372 | 115 | 871 | 243 | 3076 | 150 | 167 | 41 | 358 | **3,434** |
| **2017** | 1200 | 250 | 379 | 117 | 889 | 248 | 3083 | 300 | 237 | 42 | 579 | **3,662** |
| **2018** | 1125 | 288 | 387 | 120 | 906 | 253 | 3078 | 450 | 298 | 43 | 791 | **3,869** |
| **2019** | 1050 | 325 | 395 | 122 | 924 | 258 | 3074 | 600 | 351 | 44 | 995 | **4,069** |
| **2020** | 980 | 360 | 403 | 124 | 943 | 263 | 3073 | 750 | 398 | 45 | 1,193 | **4,266** |
| **2021** | 900 | 400 | 411 | 127 | 962 | 268 | 3068 | 750 | 400 | 46 | 1,196 | **4,264** |
| **2022** | 780 | 460 | 419 | 130 | 981 | 274 | 3043 | 750 | 402 | 47 | 1,199 | **4,242** |
| **2023** | 625 | 538 | 427 | 132 | 1,001 | 279 | 3002 | 750 | 403 | 48 | 1,201 | **4,203** |
| **2024** | 525 | 588 | 436 | 135 | 1,021 | 285 | 2988 | 750 | 405 | 49 | 1,203 | **4,191** |
| **2025** | 415 | 643 | 445 | 137 | 1,041 | 290 | 2971 | 750 | 405 | 50 | 1,205 | **4,176** |

Sources and notes: see endnote[67]

The AHI and RRAP are housing programs delivered through CMHC. The HPS is only partially a housing program but it has worked well as a support for local agencies working with the homeless. The mixture of support for these agencies as well as housing is appropriate for the homeless, especially those chronically so. "Housing First" is the mantra of those dealing with homelessness but for the chronic homeless support is the "second" that must follow the first. We suggest that the provinces and municipalities repurpose some funds currently used for emergency shelters to provide supportive services. Well before the end of the ten year commitment there should be an assessment of the performance of the new programs proposed in this report. If these are performing up to expectation it should be possible to reduce funding for the AHI and the HPS.

The many proposals in this report will increase current federal housing subsidies by about $1.2 billion over current levels, to $3.4 billion in year one, 2016-17. This cost is much less than current US federal expenditure on a per capita basis. Furthermore, some of the expenditure simply replaces what should have occurred over the last two decades, as the multiunit rental stock in some markets has stagnated or declined and the affordable housing infrastructure has deteriorated. Some expenditures will be offset by the reductions in costs at the provincial and municipal levels. The failure of the housing system has forced cities to fund emergency shelters to help those most damaged by this failure, and after the proposals are implemented shelter space can be reduced. As well it is expected based on the evidence from the At Home/Chez Soi report that health care and judicial system costs will be reduced.

The housing benefit will reduce the flow into homelessness. Its cost will also, like the child tax benefits introduced some years ago, reduce the flow of people forced to apply for social assistance. Finally, the tax expenditure to increase multiunit rental housing will be at least partially offset by an improvement in tax revenue, if the increase in this supply dampens the demand of investors for condominium units and reduces the drain of tax revenue when these investors claim ret rental losses.

We conclude by underlining the fact that expenditure to fund the proposals advanced here represents their gross cost. Their net cost will be less. At the same time, the human benefits of the net expenditure are potentially immense—a reduction to near zero in homelessness, a drop in the use of soup kitchens and food banks, and a reduction in the numbers on social assistance.

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# Appendix A

## Subsidies to home owners as compared to renters

The subsidies to homeowners are all tax expenditures. First, the non-taxation of capital gains on principal residences reduces government revenue – adding to the burden of the federal government just as surely as does an actual expenditure – by an estimated $4.0 billion in 2013. This tax expenditure benefits a taxpayer more the greater is the increase in value of his home, and also, the greater is his or her income, and accordingly, marginal tax rate. Not only is the tax break going to a group – homeowners – who are on average better off than renters, but also, among homeowners, the richer the taxpayer the larger the benefit, making this break decidedly regressive. The benefit for moderate and high income households is $3.8 billion, on the assumption that only five percent of this benefit goes to very low-income homeowners, that is, those with an income below $30,000.

To this must be added another tax expenditure benefitting homeowners, especially well-off ones. This is the freedom from tax of net imputed rent. This rent must be taken into account because homeowners – owner-occupiers – are essentially real estate owners who rent out their property to themselves. The rent they do not have to pay to a landlord, minus expenses, is just as surely income to them as the dividends they would be receiving if they had bought stocks instead of a home. The value of net imputed rent is not available for Canada, but the US estimate for 2014 is US$75.5 billion. If the Canadian amount were the same per capita after converting to Canadian dollars, the estimate for Canada would be over $9 billion. In view of the heavy load of mortgage debt now carried by Canadian homeowners over our extended boom in house prices -- and since mortgage interest is deducted as a cost from imputed rent – we estimate this tax expenditure at a lower amount, $5 billion in 2013. Assuming that the amount accruing to homeowners with an income less than $30,000 is 5 percent of this, we get over $4.75 billion in tax expenditures received by homeowners who are middle to high income. The total of tax expenditures for non-taxation of capital gains of a principal residence and imputed rent is $8.6 billion for the middle to high income. Clayton (2010) reports much greater tax expenditures in total for all homeowners in 2009 mainly because of his provision for GST/HST-related tax expenditures, estimated at $3.9 billion – as compared with $1.2 billion GST/HST-related tax expenditure for rental – and the temporary Home Renovation Tax Credit, $3.0 billion.

The contrast is stark – and illustrated in Figure A.1 – between the $2.2 billion in housing subsidies for low-income families and the estimated $9 billion in subsidies via the tax system for better-off homeowners

FIGURE A.1. **Estimates of federal government subsidies for affordable housing compared to tax expenditures for non-poor homeowners (billions of 2013 dollars)**


Sources: see text in this appendix, and associated endnotes.

# Appendix B

## Translating homeless individuals into households: determining the number of transitionally homeless households

The number of housing units needed to house the transitionally homeless depends not on the number of homeless *people* but on the number of transitionally homeless *households*. We tackle the task of determining this number by first deducting the number of accompanied children, since children would not form their own household. Segaert (2013) finds 6.5 percent of all sheltered homeless in a year to be children accompanied by a parent, almost all in family shelters. This is 9,459 in 2009 (Segaert, 2013, Table 9), with a rising trend over time. We assume the number had reached 11,000 by 2013. Furthermore, Segaert's homeless total does not include those in VAW shelters; we have estimated that there are 11,800 homeless children in these shelters. The total number of children, rounded, is 12,000 +11,000. Deducting this estimate of the number of accompanying children from 145,000 (the number of transitionally homeless individuals as estimated in the main text) gives 122,000 households.

We also have to correct for the number of couples. We know there are *some* couples because the necessity to split up – especially where shelters are single sex – is given as a reason why some homeless people sleep outside (Gaetz et al., 2013); furthermore, in the Toronto survey, 25 percent of respondents in *family* shelters were male (City of Toronto, 2013), and most males in family shelters were, we presume, partners of females who were clients of the same shelter. In the mixed Toronto shelter, one-third of clients were male; if we assume that they and 80 percent of males in family shelters were the second person in a couple, we get about nine percent of Toronto non-chronic adult homeless to be the second person of a couple.

We use this Toronto numbers as the basis for estimating the percentage of Canada year-prevalence homeless (that is, the number who ever in a year are homeless) who are the second person in a couple. On the one hand, the percentage from the Toronto Pit count will tend to be too low because the chronic homeless – who would almost all be single – are over-represented in Pit counts; on the other hand it is likely too high as an estimate for Canada as a whole, because the extreme housing unaffordability in Toronto would drive a relatively large number of couples and families into shelters. We assume these factors approximately offset each other and take 10 percent of the adult transitionally homeless as second persons in a couple. Deducting these from 122,000 we get 109,800 which we round up to 110,000.

# Appendix C

## The use of AHI funds by province

This appendix demonstrates the variation in implementation of the AHI program among provinces depending on the agreement forged with federal government.

### Ontario –

- Funding available for 75% of total land and construction costs up to a maximum of $150,000 per unit; this cost is split evenly between CMHC and the province.
- Forgivable capital loan during construction
- Must set maximum income level for tenants, based on the Household Income Limits (HIL) set by CMHC and verify tenant income on move in; annual income verification at the discretion of the Service Manager
- Average rents in the building must be kept at 80% of CMHC average market rents (AMR) from the most recent CMHC rental market survey. Individual units may have rents up to the AMR for the area, allowing some units to have rents less than 80% of AMR
- There are other components to the IAH for Ontario; for example, Service Managers are permitted to stack Rent Supplements from the IAH on units for which capital funding has been provided under the IAH rental construction program

### Saskatchewan –

- Rental Development Program: One time capital funding (provided by CMHC and Saskatchewan Housing Corporation) to develop rental units covering up to 70% of the capital costs; proponent must have 30% equity or other financing
- Must rent to households who have incomes within the Moderate-Saskatchewan Household Income Maximums (SHIM) as established by SHC.
- Rents must be set at or below average market housing rents for comparable housing in that area, and must be affordable to the tenant .
- SHC secures the loan with a registered interest on the title in second position to private lender financing of the units.
- The loan is forgiven over a period of 10 to 20 years, depending on the level of funding provided.
- There is an operating agreement with SHC throughout the forgiveness period.
- May 2014 Request for Proposal for funding requires units to be built for the "hard-to-house"
- Developers must support provincial apprenticeship programs

## Alberta –

- Funding can be used for new rental construction, purchase and/or renovation of existing rental units, conversion of commercial space (non-residential use to residential rental use), and home ownership (new construction only).
- Preference will be given to applicants proposing developments that integrate affordable housing units, housing for the homeless units, and market housing through mixed use, mixed tenure, mixed income, or any combination of the three.
- Grant funding for affordable housing is 65% of the total capital costs to a maximum of $150,000 per unit. The total funding from all provincial government sources or government-funded agencies cannot exceed 65 per cent.
- Monthly rental rates must be a minimum of:
  - 10 per cent or more below average market rent for affordable housing units.
  - 20 per cent or more below average market rent for housing for the homeless units.
- Preference will be given to applications proposing rental rates lower than the minimum requirements and that are reflective of the amount of the grant funding requested.
- Have a separate rent supplement program – administered by local authorities; no indication of how large or if some units are in affordable rental projects

## BC –

- $12.5 m (shared Fed and Provincial) per year enrichment of housing allowance programs for seniors and families— the SAFER and RAP plans http://www.bchousing.org/Media/NR/2014/04/16/11372_1404160943-880
- Details on the Federal-provincial program not easy to find
- BC also has its own program to lend to developers of non-profit housing – construction financing at 1% up to 100% of costs plus assistance in arranging reasonably priced take-out financing

## Manitoba –

- Grants for development of affordable housing are 35% of capital costs or $65,000 whichever is less
- As well, can access the recently introduced Rental Housing Construction (RHC) Tax Credit
- Manitoba also provides a limited amount of rent supplement dollars to these projects to make units affordable for low-income seniors or households

## Quebec –

- http://www.habitation.gouv.qc.ca/fileadmin/internet/documents/depliant_acceslogis.pdf, http://www.habitation.gouv.qc.ca/fileadmin/internet/publications/0000022984EF.pdf Allocation-logement, housing allowance program, previously solely Quebec-funded, now cost-shared -- $35.5 million paid bof $72.7 million total cost, 2013

- Grants of 50% of capital costs; can be used for standard rental, supportive housing, rooming houses and housing for victims of violence
- Rents need to be 75-85% of median market rents
- Rent supplement available for 0-50% of units  (depends on the intended user); reduces rent to 25% of income

## Nova Scotia –

- Up to $25,000 in capital funding grant and $25,000 over 10 years for rent supplement funding
- For new construction or conversion of non-residential to residential
- Building needs to remain affordable for 15 years

## New Brunswick  –

- Difficult to find detail but it appears they have expended funds mainly on repairs to rental and owned housing to maintain reasonable quality and safety
- Where they assist with new rental construction, they finance a certain number of units in the development (e.g. 18 of 28, 24 of 68) rather than a % of overall capital costs; the % of units financed varies substantially
- New Brunswick has a rent supplement program but they do not discuss it in conjunction with the Affordable Rental program

# Appendix D

## Details of the estimation of the cost of the Rent Supplement program for the chronically homeless

We first have to determine the rent to use for costing this proposal. The numbers in Segaert (2013) and in Gaetz et al. (2013) indicate that the great majority of the homeless live in Toronto, Vancouver, Calgary, Edmonton and likely Montreal. The average rents for a one bedroom apartment in the conventional apartment building stock in April 2014, ranged from $935 to $1042 in these cities, except for Montreal where it was at the much lower level, $676. To estimate the cost of the 20,000 rent supplements we assume that 75 percent of the supplements go to support chronic homeless clients in high cost cities, where the rent paid is $1,000 per month and the contribution of the client, $375. For the remaining 15 percent of the 20,000 chronic homeless, in low cost cities, we assume that rent is $700 and the contribution of the client, $300. Using these assumptions the annual total cost is estimated at $136.5 million . Components of the estimates and details are shown in the table below.

**CALCULATION OF ANNUAL COST OF RENT SUPPLEMENTS FOR THE CHRONIC HOMELESS**

| | Average rent | Client's contribution | Subsidy per client | Annual subsidy per client | Number of clients | Total Cost |
|---|---|---|---|---|---|---|
| **High-rent cities** | $1,000 | $375 | $625 | $7,500 | 15000 | $112,500,000 |
| **Other places** | $700 | $300 | $400 | $4,800 | 5000 | $24,000,000 |
| | | | | | **Total** | **$136,500,00** |

# Appendix E

## Details of the design of the Housing Benefit

(See Pomeroy et al., 2008, for more details)

In the main text the housing benefit is given in general terms as 75 percent of the gap between housing costs and a reasonable contribution from the recipient – with a maximum set for the housing costs that could counted in the calculation. We now add details. The housing cost would be gross rent (paid rent plus the cost of heating, water, sewage and electricity) in the case of renters, and gross housing costs (mortgage payment plus property taxes and the cost of heating, water, sewage and electricity) in the case of homeowners. It is possible that the cost of utilities would be set amounts rather than actual amounts, as is the case with Quebec's AL.

The maximum amount that could be claimed for housing costs either for renters or owners would be the median rent for an appropriate-sized unit in the province concerned for areas of 100,000 population or more – for those living in such places – and the median rent in smaller places, for those living there. If this split by area proved to be administratively difficult, the maximum would be set simply at the median rent in the largest municipal area in a province.

"Reasonable rent" (which we sometimes refer to as the recipient's "reasonable contribution") would be $325 per month as a minimum for singles; this is somewhat less than the maximum shelter allowance for social assistance recipients in Ontario, and slightly more than the minimum rent in Quebec's AL formula. For two people it would be $450 and for three $500. A minimum rent that is uniform across the country is consistent with the pattern of welfare incomes. These are quite similar across Canada with 2012 monthly amounts for a single employable person ranging from slightly less than $600 to well under $700, except for Saskatchewan at $742 and Newfoundland at $901 (except $751 for those living outside St. John's). Thus the $325 per month set as a minimum contribution for a single would range from less than half of the income of a single employable person on social assistance, to slightly more.

Reasonable rent would remain at the $325 minimum *for a single* until 40 percent of income was greater than $325. Thus if a single person went off welfare in BC, and earned $800 per month, reasonable rent would remain at $325; in fact the housing benefit for a single person leaving welfare in BC would not decline until income was slightly over $810, substantially higher than BC's $663 welfare income. If this same single managed to earn $900 per month, the housing benefit would fall but the fall would be only $35, just 15 percent of the increase in income.

For *a couple or a family of one parent and a child*, reasonable rent would be $450 until 30 percent of income was greater than this. Thus if this lone parent moved off welfare into a job with total income (including child tax benefits) rising to $1,600 per month, reasonable rent, computed at 30 percent of income, would be $480, an increase of just $30 from the reasonable rent on welfare.

The contribution rate of singles is set at a higher rate – 40 percent – than that of childless couples and families, because singles, after rent is paid, have lower needs than larger households – there is only one mouth to feed with the income left over after housing costs are dealt with, not two or more.

How much would be housing benefit be in some specific cases? A single employable person on welfare in Ontario and paying $500 rent would receive a housing benefit of 75 percent of ($500-$325) or $131 per month. A single working person with an income of $1,000 per month and paying $600 per month in rent would receive a housing benefit of 75 percent of ($600 - $400) or $150 per month.

The effect of the set maximum rent is illustrated in the following example. Suppose the maximum rent for a single is $600 per month. If a single were actually paying a higher rent, say $800 per month, the housing benefit would be no higher than if rent were $600. If income were $1,000 per month the housing benefit would be 75 percent of ($600 - $400) or $150 per month. This is the same benefit as in the previous example where rent is $200 less.

Economists and others are usually concerned with the effect of a benefit program on the marginal effective tax rate (METR) of recipients. The apparent and actual effect in the case of the housing benefit is explained as follows. For a single person, the housing benefit for those of higher incomes – that is, higher *among this low-income group* – is 75 percent of (rent minus 40 percent of income). The effect of the benefit on the METR then is apparently 75 percent of 40 percent, which equals *30 percent*, for this subgroup of recipients. For childless couples and families, 30 percent of income is used instead of 40 percent, so that the effect on the METR is apparently 75 percent of 30 percent, or *21 percent*.

In actuality, several factors ameliorate this effect. First, for a stretch of income above the welfare income there is zero effect on the METR. This is true because the reasonable contribution remains at $325 until income is high enough that 40 percent of income (in the case of a single) is greater than $325. This means that, for example, in BC, a single person leaving welfare and an income of $663 per month would have to increase income by over $149 per month before there was *any* effect on the METR whatsoever. An income increase for this BC resident to $1,000 per month would result in a benefit decline of only $56.25, for an average METR increase of only 16.7 percent. Also, as pointed out in the main text the person moving off welfare to work and receiving an income $1,000 per month gets to enjoy this higher income for many months before the housing benefit is reassessed. Finally, it is very likely that an annual rent increase will occur so that the effect of the increase in the reasonable contribution on the housing benefit will be partly offset by the increase in rent.

It is important to note that the minimum rent has another role to play in the scheme aside from its proxy for the housing component of social assistance. That role is to ensure that those with zero taxable income but with substantial assets and cash flow do not get too high a housing benefit. A further safeguard would be to include, like Quebec, a liquid asset maximum of $50,000 – without documentation required of applicants to prove this requirement is met – to ensure that outrageous cases may be dealt with. However the asset issue is not one taken into account in the calculation of the GST/HST credit and child tax benefit, so there seems no reason why it need be in the case of this benefit.

Finally, we note that the definition of income used for this program will be comprehensive. In particular it will include child tax benefits. These are paid to help provide the necessities of life for children. One of those necessities is shelter so it is appropriate that some of this parental income is deemed to be available for housing costs.

# Appendix F

## Details of the estimation of the cost of the Housing Benefit

### Introduction

The estimation used as its base the estimates in Steele (2011) for a housing benefit in Ontario for renters; any reference below to housing benefit numbers in Ontario uses estimates from this source. That paper used microdata from the public use microdata sample (PUMS) of Statistics Canada's Survey of Household Spending (SHS), for the income years 2009, 2008 and 2007 – with the heaviest weighting given to the 2009 PUMS – to estimate median rents, the number of recipients, the total cost of the benefit and the average monthly benefit. These estimates were extended to Canada for this paper using the core housing need estimates for urban Canada, 2002 to 2010 from CMHC. These estimates were extended, using CMHC rent data for Canada and the provinces, to 2013 (which would determine the benefit in 2014) and using income and earnings data from Statistics Canada. The estimation assumes that there is 100 percent participation of eligibles.

### The number of recipients

The number of family renter recipients based on 2010 data was estimated by multiplying the number of Ontario housing benefit recipients based on 2009 data times the ratio of Canada households in core (housing) need to the number of Ontario households in core need in 2010; the number was 218,093. The number of non-senior singles and childless couple recipients was estimated analogously; the number obtained was 375,000. The numbers were extended to 2013, after observing that there was no upward trend in the number in core need but rather fluctuation according to economic conditions: there was a pronounced increase in the number in core need in 2008 and 2009, when employment fell sharply, while the number was flat in 2010 when there was little recovery. For this reason the number of recipients for 2013 was set at 210,000 for families and 360,000 for singles and childless couples.

The number of family owner recipients was estimated by multiplying the number of Canada owner families in core need by the ratio of estimated number of Canada renter family recipients to the number of Canada renter families in core need. This assumes that the ratio of recipients to those in core need is the same for owner families as for renter families. In fact, CMHC data for 2006 show that non-elderly owner households in core need have an income about a third higher on average than non-elderly renter households ($24,134 vs $18,847) in core need so it seems possible that this gives an overestimate. In any case the estimated number is 104,500. For singles and childless couples the estimate is computed analogously: it is 109,400. Core need for owners does not show the same impact of the high unemployment in 2009 and 2010 as that for renters does but there is evidence of a slight rise over time in family owner core need numbers and so for 2013 the number of recipients was set at 105,000 for families and 106,000 for singles and childless couples.

It is assumed that 50,000 households, about one-third of the total of 110,000 plus 50,000 (the number of transitionally homeless households plus the hidden homeless) have the housing benefit going into a reserve fund. We class these recipients with the renter category.

Thus the total number of renter recipients is 625,000 and that of owner recipients is 211,000. Over 60 percent of recipients are singles or childless couples.

## The average monthly benefit and total estimated expenditure for the housing benefit

The average monthly benefit for Ontario renters, based mainly on 2009 income and rent data is $130 for families and $90 for singles and childless couples. With these values as a basis we derive the average monthly benefit for Canada in several steps. First we make an upward adjustment to the estimated benefit because of the lower minimum rents in our proposal than used in the Ontario estimates. Assuming half of recipients pay reasonable rent equal only to the minimum, we derive an upward adjustment to $175 for families and $104 for singles. Next, we adjust the benefit for the fact the maximum rents used in Ontario are slightly higher than the CMHC Ontario average – the ratio is 1.015. Then the benefit is adjusted for the lower Canada than Ontario rents; this gives a ratio of 0.85. Then the average family benefit is adjusted to $175 time 1.015 times 0.85 equals $151.

A similar adjustment gives an average benefit of $90 for singles and childless couples; these are based on 2009 data.

To put these estimated benefits on a 2013 basis, we examine rent increases from 2009 to 2013 and the median income increase (linked to average hourly earnings in 2011) over the same period and find these both increased by about 10 percent. This means that the average benefit must increase by about 10 percent. Thus we ultimately use for 2013 an average benefit for renter families of $166 and an average for singles and childless couples renters of $99; for owners we lower the average benefit substantially because of their higher average income – CMHC 2006 core need estimates found that the average income of owner households in core need was $24,000 as compared with $18,000 for renters – to $116 for families and $80 for singles and childless couples.

The estimated total cost of the benefit is $871.08 million for renters and $247.92 million for owners, $1.119 billion in total .

# Appendix G

## Estimation of the cost of tax proposals involving higher depreciation rates for multiunit rental housing construction

In this appendix we describe the estimation of the cost of the proposal for greatly accelerated tax depreciation (the CCA) for new construction. This is the model for estimation of the cost of other proposals involving the CCA. Further details about the estimation in the case of this and proposal 1 are available in a note obtainable from marionsteele@gmail.com.

The estimation procedure for greatly accelerated tax depreciation follows the cash flow principles used in the estimation of tax expenditures by the Department of Finance ( 2010). A notable disadvantage of this method is that it takes no account of the time value of money. In particular, it treats revenue deferred for some years on the same basis as current revenue; all that counts in this method is the cash flow in each year.

The estimates here are obtained by estimating the Capital Cost Allowance taken under the proposals here for every year up to year ten, then deducting the CCA taken under current law and then multiplying this difference by the assumed tax rate. In computing the CCA under the proposals here we assumed that proposal 3 (elimination of the half-year rule) is also implemented and in computing the CCA under the current law we assumed that 10 percent of investment was carried out by new investors who did not have sufficient net rental income to allow them to deduct CCA for five years.

The assumptions used are as follows:

- In each year for five years 10,000 new units in eligible multiunit rental buildings are completed.
- Construction and soft costs (for example architect fees, interest paid during construction) together amount to $125,000
- The overall rate of inflation, as well as the rate of inflation of development costs, is 2 percent
- The marginal tax rate of the taxpayer is 46 percent

The CCA taken under proposals 2 and 3 is 12 percent in each of the first five years, where the percentage is taken of the declining balance; in the sixth and following years the CCA falls to 5 percent of the declining balance. Under current legislation, the CCA taken is 2 percent in the first year and 4 percent in each of the following years.

Thus in year 1, the CCA taken is $15,000 for each unit and the tax saved is $6.900. Under current legislation the CCA taken could be only 2 percent, that is $2,500 and the tax saved could be only $1,150. The difference ($6,900 minus $1,150) is multiplied by 10,000 to get the tax expenditure, $57.5 million. This amount is shown in Table 3 in the main text for year 1 (2016).

In year 2, the cost balance of each of the units completed in year 1 has declined to $125,000 minus $15,000 equals $110,000. This amount multiplied by the 12 percent CCA and by the tax rate is $6,072. Under current law in year 2 the CCA taken would be $122,500 times the 4 percent CCA rate now in effect. This times the tax rate, gives the tax saved, $2, 254. The difference is $6,072 minus $2,254 equals $3,818, the tax expenditure.

However, in year 2, 10,000 more units have been completed and the tax expenditure for them is based on development cost inflated by 2 percent, and is $57.5 million. To this is added the tax expenditure in year 2 of the units completed in year 1, $38.2 million – note that CCA is applied to historic cost, i.e. the CCA is not indexed to inflation. The sum attributable to the two sets of 10,000 completions is $58.7 plus $38.2 equals $96.9. This amount in 2016 dollars is shown for year 2 in Table 3 in the main text. Years 3 to 10 are derived analogously.

# Endnotes

1. This is budgetary expenditure given in Canadian Housing Statistics, 1996, Table 57, for the fiscal year 1993-94. Included are subsidies totaling $19 million for market housing provided subject to restrictions through the Assisted Rental Programme (ARP) and the Canada Rental Supply Plan (CRSP).
2. The Bank of Canada inflation calculator (based on the Consumer Price Index (CPI)) was used to convert to 2013 dollars.
3. This includes $46 million for research and income transfer, an item not separately identified in the 1993-94 number .
4. Computed from the CMHC entry in the Treasury Board document, Table 20 at http://www.tbs-sct.gc.ca/ems-sgd/20132014/me-bpd/me-bpd02-eng.asp (accessed March 28, 2014).
5. This is the planned spending for the Homeless Partnering Strategy and Federal Horizontal Pilot Projects given in the Treasury Board document at http://www.tbs-sct.gc.ca/hidb-bdih/plan-eng.aspx?Org=0&Hi=44&Pl=525 (accessed March 28, 2013). Although this spending is all counted here as housing, much if not most of it is used for homeless supports other than housing.
6. Canadian expenditure for fiscal year 2013-14 is as discussed in text above, supported by endnotes. US housing expenditure for fiscal-year 2014 budget is taken from Donna Kimura "Federal Budget: It Could Be Worse" posted January 17, 2014 Apartment Finance Today, Affordable Housing Finance subsection (http://www.housingfinance.com/affordable-housing/federal-budget-plan-brings-a-sigh-of-relief_o.aspx accessed Apr 2, 2014). US tax expenditure for the Low Income Housing Tax Credit is from Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017 Prepared for the House Committee On Ways And Means and the Senate Committee On Finance by the staff of the Joint Committee On Taxation, Table 1 under the main heading "Commerce and Housing," and labeled "Credit for low income housing." https://www.jct.gov/publications.html?func=startdown&id=4503. US$ data were transformed to Canadian dollars assuming that the latter was worth US$0.91. To adjust for the much smaller Canadian population, the US data were multiplied by the ratio of Canadian to US population.
7. It should be noted that the methods used for these Pit counts vary greatly by city—there are comparability problems.
8. These assumptions may be incorrect, of course, but the lack of data forces us to make them; we have tried to err on the side of being conservative in our estimates so as not to overstate the final number.
9. Note that 40+30 is 70, so that 30 percent of the 64,500 are left; 30 percent of 64,500 equals 18,150. Rounded this is 18,000.
10. This is simply obtained by taking 30 percent of the number of children accompanying all women admittecd.
11. The format of the NHS data available at this time precludes taking into account family size.
12. "Cities" refers to Census Metropolitan Areas (CMAs)

13. Couples with both spouses over 65 are not in this list because those with sufficient years of residence in Canada would be eligible for old age benefits totalling over $20,000 per year.
14. This issue, among many others is analyzed by economist O'Flaherty (1996).
15. We are grateful to Michael Shapcott for the information and insight (April 24, 2014, personal communication) that when an armoury was opened as an emergency shelter in Toronto in the early 1990s it quickly filled up to capacity, despite having a large number of beds. It seems likely that many of the clients in the armoury had previously been hidden homeless.
16. This is a rough estimate based on reading numbers off the chart (Toronto 2013, p. 18) and interpolating. The homeless in treatment and correctional facilities with no fixed address and in Violence against Women shelters are excluded.
17. A reflection of this is the publication of brochures such as the City of Toronto's Ending Homelessness is Good Business.
18. In the Calgary Winter 2014 count the percentage was very similar (Calgary Homeless Foundation, 2014) to that in Toronto. In the Vancouver 2014 count the number staying outside, in a car or garage or a public building or a place given as "other" was 186, or 14 percent of sheltered homeless but the latter includes those living in VAW shelters and staying overnight in a hospital or correctional facility (Eberle, 2013). In Vancouver "unsheltered homeless" includes those reporting they stayed at someone else's place while not paying rent (i.e. couch surfers) and these were 32% of all unsheltered homeless. Edmonton defines unsheltered homelessness similarly to Vancouver and like Vancouver does not observe rough sleepers but obtains its information using a questionnaire at selected locations during the daytime; if we deduct 32% of its unsheltered homeless to estimate the number net of couch surfers, we still have a large number unsheltered in Edmonton, namely, 630, still far more than elsewhere and more than half the number of sheltered homeless (Homeward Trust, 2012).
19. A higher proportion of those in a Pit survey, like that of the City of Toronto's (2013) than in a year-prevalence survey, like that of Segaert (2013), would have been homeless for a long time. To understand this, consider the following: suppose a individual is counted as homeless in the year-prevalence survey. If he is homeless for less than a month there is less than a 1/12 chance he would show up in a Pit survey. Deducing the characteristics of the year-prevalence homeless from a Pit survey is thus a hazardous undertaking.
20. This would require a change to some provincial waiting list legislation or regulations. Note that the turnover rate in Ontario in 2013 was 9.9 percent (computed from 18,378, the number of households that moved into RGI housing in 2013 and 186,000, the number of RGI housing units in Ontario in 2013 (ONPHA, 2013, pp. 4, 6)
21. At present in Ontario women who are victims of abuse are given first priority. This is not a satisfactory situation; the policy suggested here, allocating 80 percent to those on the chronological waiting list would be fairer to the ordinary low income families and persons who otherwise would sit in the queue for a very long time.
22. Suppose that of the 26 percent in the Pit Vancouver count who are homeless for between one week and three months, about a third end up remaining homeless longer; this leaves about 17 percent who exit homelessness. Now suppose that a Pit count is done every quarter; then the homeless for between a week and three months will be different people and will account for 17 percent each time. Thus 68 percent (4 times 17) of the separate individuals who are homeless in the system in a year are homeless for over week but less than 3 months.
23. Our proposal for a range of programs to suit a range of different needs in some respects is similar to the program given in the excellent report for Ontario (SHS, 2013). A major difference is our advocacy of changes in the tax system. The SHS report also includes recommendations for raising funds for

major repairs and renovations via debt-based measures. These recommendations are well worth consideration.

24. See data in Canadian Housing Statistics (CHS) various years. The number of social housing starts of apartment and other units (e.g. CHS 1994, Table 18) are deducted from the number of apartment and other starts intended from rental (e.g. CHS, 1994, Table 21). The gross number of apartment and other starts intended for rental covers only units in centres of 10,000 and over so that there is some understatement of the Canada total.
25. Unfortunately, for many years there have been no data permitting private multiunit rental starts to be distinguished from social housing. The authors know of some large social housing developments, such as those associated with the Regent Park revitalization in Toronto, and there have been starts funded by the Affordable Housing Program so that it is certain that the gross number of rental starts is substantially greater than the number of private starts.
26. That is, that the investor expects that the price of the unit rises at the same rate as rents. This is conservative because it seems likely that most investors expect that condo unit prices unit will rise at a higher rate than this – rents have been rising recently at an annual rate of just a few percent annually in Toronto, for example, and the pace of sales to investors suggests more quickly rising prices.
27. This may not be the case for condominium units held by foreign investors, especially if they are all-cash buyers: they are required to pay a withholding tax of 25 percent of gross rents unless they apply to pay tax on net rents.
28. For more information on the taxes and tax changes discussed below, see Steele and Tomlinson (2009)
29. Multiunit rental housing may be referred to as "multiunit rental" in this report.
30. Note that as CCA is taken, this amount is deducted from building value for tax purposes, and the dollar amount of the CCA itself erodes as over time. To understand how this deduction works, why the deduction declines over time and the nature of the declining balance of value of the building, consider this example. If a building is worth $1,000,000 at the beginning of year two, the CCA that could be taken in year two is 5% of $1,000,000, which is $50,000. Then $1,000,000 minus the CCA taken of $50,000 is $950,000 and this is termed the Undepreciated Capital Cost (UCC) at the beginning of year three. The CCA rate of 5% is then applied to this lower balance, $950,000, in year three and the CCA deduction in year three is this amount, $47,500. The UCC at the beginning of year four is thus $1,000,000 minus $50,000 minus $47,500 which equals $902,500. Thus we see the balance has declined from $1,000,000 to $902,500.
31. This is so because new purchaser would start by being able to take five percent of the market value – or full value – of the building (on the assumption that Proposals 3 and 4 are also implemented) unlike current owners whose building typically would have declined substantially in value for tax purposes.
32. This program has a number of facets (see http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=7fe8f40f9aae0410VgnVCM10000071d60f89RCRD ) one of which, Hi-RIS, provides some financial support for energy efficiency and water conservations improvements
33. Over time, when there is some inflation, this investor will benefit from the CCA deduction: rents rise more than operating plus interest expense so that eventually a point is reached when the CCA may be deducted without creating a loss. However, this delay in the deductibility of the CCA is a huge financial disadvantage to new investors.
34. Note that while the part of the distribution that is traceable to the CCA deduction is free of tax initially, there is a tax consequence when the units are sold. The CCA is regarded as a "return of capital" because it is viewed as merely recognition of the loss in value associated with the aging of the building – the building is worth less than a new one because it is wearing out and becoming obsolescent. There is abundant evidence, however, that the 4 percent CCA rate is higher than the actual rate of depreciation

35. This is simply the result of the CCA being a constant percentage of a declining balance. See above, endnote 30.
36. To the extent that shareholders hold REITs in registered accounts (such as RRSPs and RRIFs) or in TFSAs, they will be indifferent to the tax rate of their distributions. However shareholders holding many thousands of units, when, for example they hold a substantial part of all units, will not be in this situation and will be concerned with the tax rate.
37. This is slightly higher than the top marginal rate for Ontario tax payers (the 25 percent effective rate for capital gains refers to the same taxpayers), which reflects provincial income taxation as well as federal. There is substantial variation from province to province and the top rate in Alberta is well below this. The calculation assumes that the building holds its value because of capital expenditures during its life, so that it is worth at least as much as at the date of purchase. For example, suppose the property were purchased for $1,000,000 in 1990 and the building was worth $800,000 of the total price. Now suppose the property were sold for $3,000,000 in 2014. If the building were worth less than $800,000 of the $3,000,000, the tax on CCA taken would be less than 50 percent.
38. This is the rate for the multiunit property assumptions given in Steele (2009). The building is worth $90,000 per unit at the purchase date, is held for 20 years and is assumed to increase in value at a rate of 2.25 percent a year. The discount rate for the taxes, 4.25 percent (Steele, 2009, Table 3), is used to compute the present value, at the date of purchase, of taxes paid in the year of sale (Steele, 2009, Table 4).
39. Details of the funding are given in http://www.csh.org/wp-content/uploads/2013/11/AI_Anishinabe_F.pdf
40. See http://www.gov.mb.ca/housing/mh/progs/rental_housing_tax_credit.html . For details of the program and illuminating examples see Manitoba (2013)
41. The present value of the credits received over four years would be less than the arithmetic sum of the nominal amounts, with the difference being greater the greater the interest rate. The Manitoba credit is small enough that the developer himself or herself would likely have sufficient taxable income to use it all and therefore would not need investors to share ownership of the project.
42. Based on the US experience we expect that initially, as investors are familiarizing themselves with the program, there may not be enough applications to result in a competition for the awards
43. This is a much higher minimum than for the LIHTC, but the CCA and other incentives we propose will make it easier for profit-making developers to build without the help of the credit.
44. 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 RS contract.
45. The provision for a stream of credits is taken from the LIHTC but its stream is longer and its discount rate was the federal long-term government yield until 2009 when it was fixed, as a "temporary" measure, at a higher rate.
46. Under the LIHTC and the RHC there are carry-forward provisions.
47. See http://www.tdcanadatrust.com/easyweb5/crr-2011/community/affordable_housing/reinvesting_communities.jsp (accessed Aug 1, 2014)
48. See https://www.rbccm.com/tceg/ (accessed Aug 3, 2014).
49. This is about $100 million more than the amount ($1.6 billion) that Shelter (2014) gives as current spending of CMHC to meet existing social housing operating agreements.
50. CHRA Housing Policy 2009
51. CMHC Annual Report 2013
52. This seems to be the current practice in at least some places in Ontario.

53. The Ontario amount changes from one year to the next, more or less in line with the rate of inflation; the 2014 amounts are given in http://www.mcss.gov.on.ca/documents/en/mcss/social/directives/odsp/income_Support/6_2.pdf. (The Ontario government provides an amount for social housing providers that is much less than this, but this policy is widely recognized as an inappropriate transfer from the social housing sector to the social assistance sector.) The BC amount is given at http://www.eia.gov.bc.ca/mhr/da.htm (accessed June 25, 2014)
54. See brochure http://www.revenuquebec.ca/documents/en/publications/in/in-165-v(2013-10).pdf.
55. Tweddle et al. (2013, Appendix A). These are for the year 2012. Alberta gives some of the disabled, those with severe and permanent disabilities, a much higher income, $17,586.
56. The design proposed here is similar to that in a proposal for Ontario given in Pomeroy et al. (2008)
57. This is one of many respects in which the HB is less generous than the UK housing benefit.
58. At the time the tenant moves into a unit, a landlord who has required income information from applicants would be able to compute the amount of the benefit, but the benefit would be paid to the tenant only many months in the future because of lags in the payment design. Asking a low income tenant for more rent now on the basis of funds coming only a long time in the future would be a risky move. Furthermore, once the tenant is in place, landlords have no right to income information, so the landlord would not know the amount of the benefit received by tenants whose income has changed – true for virtually all tenants of a year or more.
59. Information is given at http://www.revenuquebec.ca/fr/citoyen/situation/faible_revenu/programmes_Allocation-logement.aspx (accessed July 1, 2014). The minimum age for childless singles and couples is scheduled to fall to 50 by 2015.
60. Benefits under this program are is paid as part of the Trillium monthly benefit. See http://www.cra-arc.gc.ca/bnfts/rltd_prgrms/ntr-eng.html#ptc (accessed July 1, 2014).
61. This somewhat clumsy arrangement is to protect the reserve fund against risk of misuse. The agency lending homeless persons funds in the first instance would have to take the risk but would presumably be knowledgeable about them.
62. Some might also object to a benefit that increases (up to a ceiling) when rent increases. In a perfect housing market, this objection would be powerful, because there is a tendency for the better off recipients – although it is important to recall that all recipients would be low income – to spend more on higher quality housing, and thus get a greater subsidy, other things equal. However, empirical evidence is that at the low incomes we are concerned with, there is very little change in rent on average as income increases. In the imperfect real world, higher rents are often not a matter of choice. Instead, for example, new immigrants might find that few landlords are willing to consider them because they have no Canadian credit record, and so they are stuck paying the higher rent of the few units open to them. And those just released from a psychiatric institution or even lone mothers with one or two children are apt to have to pay more than the typical tenant, because fewer units are available to them, while a person with social, ethnic, or work connections might be able to land a bargain unit.
    An alternative to the scheme we suggest would be to base the housing benefit on the average rent in the recipient's city. This would deal with the issues just raised and would also help those living in high rent places. Unfortunately, it would be far more expensive than the scheme proposed here, because the large number of recipients paying less than average rent in a city would be paid a higher benefit than needed.
63. The RS average is obtained by dividing the number in Table 3, column 4 for 2016 by the number in Table 2, last column, row 2, with the result multiplied by 1,000,000 and then divided by 12; the HB average is obtained by dividing the number in Table 3, column 5 for 2016 by the number in Table 2, Renter column, next to last row , with the result multiplied by 1,000,000 and then divided by 12. Numbers given are rounded up versions of the results

64. Canadian size standards are higher than those currently in place in New York City, where a mother and son – even a 21-year-old student -- would be placed in a one-bedroom apartment (Navarro, 2014).
65. These amounts, far below the maximum shelter paid to tenants in private units, are given in http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_010298_e.htm .
66. Société D'habitation Du Québec (2013) Rapport Annuel De Gestion 2012-2013, table, p 33 http://www.habitation.gouv.qc.ca/fileadmin/internet/publications/0000022984.pdf
67. Sources and notes to Table 3: 1. Year 1 is taken as 2016 2. Numbers for current CMHC commitments, and subsidy as commitments end are rough estimates based on Figure 5 in Shelter (2014). 3. Expenditures in columns 3 - 6 increase at the rate of inflation, assumed to be two percent 4. Tax expenditure is computed on a cash flow basis, following the practice of the Dept of Finance. It is the CCA deducted minus the CCA deducted under the current rules. Some additional details are given in Appendix G. 5. The year 1 expenditure of $176 million for the AHTC (col. 8) is the first year payment needed to give a present value of 5 payments equal to $750 million. The discount rate used to obtain this present value is 5.5 percent; the long-term government bond rate is assumed to be 3.5% (in early August, 2014 it is under 2.7%) and the program specifications set it as 2 percentage points above the government bond rate. For the purpose of calculating the number of units it is assumed the investor rate of discount is 7%. The stream of credits at this rate gives a present value of $721.6 million.
68. Projection of the Department of Finance, given in Tax Expenditures and Evaluations 2013 http://www.fin.gc.ca/taxexp-depfisc/2013/taxexp-depfisc13-eng.pdf. Numbers for 1993 were obtained from Department of Finance (1995) Government of Canada Tax Expenditures 1995 http://publications.gc.ca/collections/Collection/F1-27-1995E.pdf; the Bank of Canada inflation calculator (based on the CPI) was used to convert to 2013 dollars.
69. This is consistent with the fact that the 20 percent with lowest incomes in 2009 received only 7.2 percent of national income (http://www.conferenceboard.ca/hcp/hot-topics/caninequality.aspx accessed April 2, 2014) and the fact that the homeownership rate is low among those with a very low income.
70. Federal Receipts , from 2014 budget papers, section 16 Tax Expenditures, Table 16-3, p. 254 http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/receipts.pdf
71. The crude estimate for 1993 imputed rent tax expenditure was obtained as follows: it is the average of the estimated 2013 imputed rent tax expenditure and the value obtained by assuming the ratio of the imputed rent tax expenditure in 1993 to that estimated for 2013 was the same as the ratio for the two years of capital gain tax expenditure.
72. The estimated tax expenditure because of non taxation of net imputed rent is thus 56 percent of total tax expenditure benefitting non-poor homeowners; for the US the similar ratio is 62 percent (calculated from the table given in the previous endnote. The 5 percent deduction to adjust for poor households was also applied to the 1993 values.
73. The total of 11,000 children in emergency shelters and the 12,000 children in VAW shelters gives 11,000+12,000 equals 22,000. Subtracting this from the 145,000 transitionally homeless we started with gives 145,000 – 22,000 equals 123,000. Families have much longer stays in shelters than singles: very few stay for less than a week – Segaert (2013) reports the mean stay in family shelters is 50 days in 2009, more than twice the mean length of stay in other shelters. For this reason we assume that no families are among the group eliminated earlier because they stay only a week or less.
74. We have not dealt explicitly with "turnaways," people who are turned away from shelters for a variety of reasons including unsuitability – for example, a woman might show up at a men's shelter – or simply that the shelter is full. The number of turnaways is not large – and is difficult to estimate mainly because of the possibility that the person affected might be accommodated at another shelter.

75. See page 2 of http://www.socialservices.gov.sk.ca/Capital-Rent-Subsidy-QAs.pdf for current income limits
76. The BC housing benefit programs, Shelter Aid for Elderly Renters (SAFER) and Rental Assistance Program (see http://www.bchousing.org/Options/Rental_market/SAFER and http://www.bchousing.org/Options/Rental_market/RAP both accessed July 1, 2014) have higher rent maximums for the Metro Vancouver Regional District than elsewhere; for example the maximum rent for an elderly single is $765 per month in the MVRD and $667 elsewheere.
77. These are calculated from welfare incomes given in Tweedle et al. (2013). It is not clear whether the Tweedle et al. values for families include, for Quebec the AL and for Saskatchewan its Family Rental Housing Supplement (see http://www.socialservices.gov.sk.ca/SRHS.pdf)
78. These are available at http://www.cmhc.ca/en/corp/about/cahoob/data/data_027.cfm (accessed July 14, 2014)
79. These are from the table "Average Rent for Two-Bedroom Apartments, Canada, Provinces and Metropolitan Areas, 1992 – 2013," available at https://www.cmhc-schl.gc.ca/en/corp/about/cahoob/data/data_004.cfm (accessed July f4, 2014)